Effective Partnering with Competitors in China: Guanxi and Conflict Management

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Abstract

Recent studies have documented that competitors can collaborate effectively for themselves and for their customers but there is a need for a framework to understand the conditions that facilitate this collaboration. Findings from 100 pairs of competitors support theorizing that guanxi, defined as close and high quality relationships, can contribute to effective collaboration in inter-organizational relationships in China. However, findings challenge traditional theorizing about guanxi by documenting that it contributes to collaboration by reducing the competitive approach to managing conflicts. The structural equation analysis support the reasoning that guanxi reduces a competitive approach to conflict that in turn results in partnership effectiveness.
INTRODUCTION

Competitive organizations have increasingly joined forces to work together to serve customers and solve problems (Hitt, Lee and Yucel, 2002; Jacobides, 2005; Rowley, Greve, Roa, Baum and Shipilov, 2005). Porter (1985, 1981) has argued that competitors can profitably work together to develop the structure of their industry. But inevitably these organizations, especially as they have different cultures and ways of working, confront frustrations and obstacles that must be negotiated if they are to collaborate effectively. This study proposes that research on the cooperative and competitive approaches to conflict, mostly conducted on the interpersonal level in the West, can identify how competitive organizations can manage their conflicts so that they collaborate effectively in China. This study also proposes that guanxi, defined as close, quality relationships (Chen and Chen, 2004; Wong, Tinsley, Law, & Mobley, 2003), supports the cooperative approach and reduces the competitive approach to managing conflict between competitors. Guanxi has long been theorized to have pervasive beneficial effects in China (Chen and Chen, 2004). Recently Western researchers have joined Asian ones to argue that strong interpersonal relationships are very valuable for organizational work (Gersick, Bartunek and Dutton, 2000; Kostova and Roth, 2003). This study suggests that a critical reason why interpersonal relationships are so useful is because they lead to the cooperative approach to dealing with conflicts and reduce the competitive approach to conflict.

THEORY AND HYPOTHESES

Cooperation among Competitors

Researchers have focused on supply chain relationships between down-stream and up-stream partners to improve product quality and reduce costs (Johnson et al., 1996; Kale, Singh and Perlmutter, 2000). But competitors too realize that they can benefit from collaboration (Brandenburger and Nalebuff, 1996). With and without a formal arrangement, competitors share common activities and investments to reduce costs (Bengtsson and Kock, 2000). Banks originate loans but then ask their partners to participate to share the risks and the business opportunity (Rowley et al., 2005). Specialist organizations in the fragmented US mortgage industry perform functions whereas before an integrated company would complete all the steps (Jacobides, 2005). While these specialist firms can become very efficient at their part, they must develop relationships with other specialists to complete the mortgage for customers. Even in mergers and acquisitions, former competitors are asked to exchange resources and learn to work together (Hitt, Lee and Yucel, 2002).

Competitors have a vested interest in maintaining and strengthening their industry (Brandenburger and Nalebuff, 1996; Gnyawali, He and Madhavan, 2006). Porter (1981, 1985) argued that competitors earn sustainable profits in industries characterized by high customer credibility, stable pricing, and reasonable barriers to entry compared to industries characterized by low entry barriers and intense rivalry. Customers may also benefit as this stable industry structure promotes predictable pricing and ongoing product and service improvements (Porter, 1981, 1985).

The Need to Manage Conflict

Researchers have recently emphasized that conflict is a basic and inevitable aspect of interdependence and interaction (Jehn, 1997, 1995; Peterson and Nemeth, 1996; Simons, Pelled and Smith, 1999). Interactants must contend, among other issues, with conflicts over such task issues as the effective and fair distribution of work and the best ways to accomplish their goals as well as relational issues such as social loafing and personal hostility (Druskat and Wolff, 1999; Wageman, 1995). However, researchers have also emphasized that these conflicts need not disrupt and can very much contribute to effective collaboration (Jehn, 1997, 1995; Simons, Pelled and Smith, 1999).
Collaborators must manage conflicts over how to accomplish their common goals and other task conflicts because they have the potential to be constructive or destructive (Deutsch, 1973). Voicing minority views and heterogeneity of perspectives have been found to improve group problem solving (Gruenfeld, 1995; Peterson and Nemeth, 1996). Studies have shown the utility of conflict for strategic decision-making through such means as devil’s advocacy and challenging assumptions (Eisenhardt and Bourgeois, 1988; Eisenhardt, Kahwajy and Bourgeois, 1997; Schweiger et al., 1989). The skilled discussion of task conflicts can stimulate creative, motivated work that accomplishes common projects (Tjosvold, 1998).

Collaborators must also manage conflicts about their attitudes and treatment of each other and other relationship conflicts as these can be constructive as well as destructive (Rahim and Blum, 1994; Tjosvold, 2002). Potentially, these conflicts stimulate motivation to deal with interpersonal difficulties, provide a medium through which problems are aired, develop useful solutions to divisive issues, and are opportunities to reaffirm commitment to the relationship (Deutsch, 1973). Dealing with conflict is not only realistic but, when constructively done, promotes relationships among group members as well as task completion.

This study takes the position that how competitive organizations approach and deal with their relational, task, procedural, and other types of conflict critically affects the outcomes of conflict. Conflict, whether it is a task or a relational one, can be harmful or productive (De Dreu and Weingart, 2003). Collaborators need the abilities to manage their conflicts if they are going to work together constructively.

**Approaching Conflict Cooperatively or Competitively**

Considerable organizational research has assumed that the behavioral strategy protagonists take very much affects whether conflicts are constructive or destructive. For example, organizational members have been thought to have five major options: smooth, avoid, compromise, force, and collaborate (Munduate et al., 1999; Rahim, 1983; Rahim and Mager, 1995). Whether they chose to smooth, avoid, compromise, force, or collaborate is expected to affect the constructiveness of the conflict.

In contrast to this emphasis on action strategies, this study develops the position that whether protagonists interact in ways that strengthen their cooperative or competitive goals critically influences the course and consequences of conflicts. Defining conflict as incompatible activities where one person’s actions are interfering or obstructing another’s, Deutsch (1980, 1973) proposed that how protagonists believe their goals are related to each other very much affects the dynamics and outcomes of conflict. In most negotiations, people have both cooperative, positively related goals and competitive, negatively goals (Lax and Sebenius, 1986; Olekalns and Smith, 2005). They may choose to emphasize their cooperative goals. In managing conflict cooperatively, people interact in ways that communicate that they believe their goals are positively linked so that as one person moves toward goal attainment, others move toward reaching their goals. They understand that others' goal attainment helps them; they can be successful together. Wanting each other to perform effectively for such competence helps each person succeed; they interact in ways that communicate that they seek to use the conflict to promote mutual goals and to resolve it for mutual benefit.

Protagonists may emphasize competitive goals in conflict. In competition, people believe their goals are negatively related so that one's successful goal attainment makes others less likely to reach their goals. In managing conflict competitively, people interact in ways that lead them to conclude that they are better off when others act ineffectively; when others are productive, they are less likely to succeed themselves. They convey that they want to use conflict to promote their goals at the expense of the other. They want to “win” and have the other “lose”.

Cooperative interactions such as showing that the protagonists want to find a solution good for all and are treating the conflict as a mutual problem to solve reinforce the protagonists’ understanding that their goals are cooperatively and positively related.
Interactions such as demanding the other agree to their own position and treating the conflict as win-lose reinforces the protagonists’ beliefs that their goals are competitively related. People’s beliefs about how their goals are related may or may not be accurately based in reality. However, from this perspective, what affects conflict management are the beliefs that protagonists develop about how their goals are related.

Evidence indicates that to the extent that protagonists take a cooperative approach and the extent that they take a competitive approach very much affect the outcomes of conflict (Alper, Tjosvold and Law, 2000; Deutsch, 1980, 1973; Tjosvold, 1998). Experiments have found that a cooperative approach to conflict encourages partners to express their views directly, listen open-mindedly, and accurately take each other’s perspective (Tjosvold, 1998). As they understand each other and the opposing positions, they develop integrated, high quality solutions to problems that they are committed to implement. These solutions help protagonists deal with costs and frustrations effectively so that they can work together productively. Therefore, a cooperative approach to conflict is expected to help competitors collaborate effectively.

In contrast, a competitive approach results in one-sided, imposed resolutions that fragment partnerships. Although they may disagree directly and even develop an understanding of each other’s position, studies indicate that they do not open-mindedly consider the views and fail to incorporate them into their own thinking (Tjosvold, 1998). Protagonists typically try to impose their solution on each other and as a consequence often fail to reach mutually beneficial agreements. Imposed solutions and the failure to reach agreement frustrate their common action, leaving protagonists doubting that they can work together. A competitive approach to conflict then is expected to interfere with collaborative effectiveness between competitors.

However, the empirical basis for concluding that a cooperative approach to conflict contributes to collaboration between competitors has been largely developed on the interpersonal level and in North America. Data are needed to test the effects of the cooperative and competitive approaches to conflict in inter-organizational relationships. In addition, the utility of conflict, as well as the theories to analyze conflict, cannot be assumed to apply to a collectivist society like China (Hofstede, 1993). Chinese people are considered group-oriented where relationships are highly valued (Chan, 1963; Triandis, McCusker and Hui, 1990; Tung, 1991). The traditional view is that these collectivist values lead to seeking harmony and smoothing over conflict to maintain relationships and protect social face (Leung, 1997; Morris et al., 1998). Confucian “Doctrine of the Mean” emphasizes that harmony is “most precious” in relationships among people and with the external world (Chan, 1963). Individuals are to control their emotions and work with others in a harmonious manner.

Chinese people have been found to use approaches that short-circuit and de-fuse open conflicts and avoid face-to-face confrontation (Bond et al., 1985). Evidence that Chinese compared to Western managers endorse and rely upon conflict avoidance supports the reasoning that conflict avoidance is functional and appropriate in China (Kirkbride et al., 1991; Tse et al., 1994).

However, recent theorizing suggests that the direct, open discussion of conflict may also be useful in collectivist cultures (Ohbuchi, Suzuki and Hayashi, 2001). Leung (1997, 1996; Leung, Koch and Lu, 2002) has argued that, although Chinese people may use harmony-seeking behavior as a way to avoid potential problems, harmony also represents a genuine concern for feelings of intimacy, trust, compatibility, and mutually beneficial behaviors. With this motive, Chinese people discuss their conflicts openly to strengthen their relationships. Despite that conflict may not be generally much valued in China, Chinese people can discuss conflict productively. This study asserts that conflict, when managed cooperatively, can promote collaboration between competitors in China.

Based on this reasoning, it is hypothesized that:
H1. To the extent that competitive organizations approach conflict cooperatively, they collaborate effectively.

H2. To the extent that competitive organizations approach conflict competitively, they collaborate ineffectively.

Guanxi Relationships for Conflict Management

But managing conflicts cooperatively between competitive organizations is challenging. Guanxi between members of these organizations have been thought to help them discuss their various views openly and integrate them into mutually beneficial solutions (Chen and Chen, 2004). This study argues that a major reason why guanxi relationships can be useful is that they promote a cooperative approach to conflict management and reduce the competitive approach.

Close, quality relationships have long been thought valuable in China, where the data for this study were collected (Chen and Chen, 2004; Wong, et al, 2003). Guanxi is considered to contribute to doing business in China, especially because of the difficulties of applying legal remedies to grievances (Hwang, 2000, 1997-8, 1987; Xin and Pearce, 1994). Chinese people, as collectivists, are thought to very much value interpersonal relationships and avoid aggressive ways of working with others (Jehn and Weldon, 1992; Leung, 1997; Triandis, McCusker and Hui, 1990; Tse, Francis and Walls, 1994). However, it cannot be assumed that strong relational bonds are automatic or even highly prevalent in Asia. Chen et al. (2002), for example, have proposed that collectivists exploit people not considered part of their in-group more than people from individualist cultures.

Guanxi can be defined as quality, close relationships characterized by the bestowing and receiving of benefits from each other (Chen and Chen, 2004; Wong, et al, 2003). Chinese researchers have argued that guanxi does not so much refer to qualities of liking and satisfaction that may be prevalent in such Western ideas as leader-member relationships as in doing favors and socializing with each other.

Theorists from the West have recently begun to argue similarly that the nature of interpersonal relationships has dramatic effects on the coordination of resources between organizational members (Kumar, 1996). Lewicki, McAllister and Bies (1998) proposed that trust, defined as the expectation of support, promotes effective organizational work. Edmondson (1999) has found that “psychological safety” where team members accept rather than punish or reject well-intentioned action helps team members learn from their mistakes. More specifically, recent studies have suggested that the nature of the relationship can very much affect the performance of inter-organizational alliances (Geyskens et al, 2006; Hardy, Phillips, and Lawrence 2003; Subramani and Venkatraman, 2003). Luo and Park (2004) found that the open mutual exchange improved performance in international joint ventures. Similarly, Zhang, Cavusgil and Roath (2003) found a relationship orientation as measured by flexibility, information exchange, and solidarity between manufacturers and foreign distributors developed trust and improved performance.

Several theorists have proposed that trusting relationships are vital for managing inter-organizational collaboration effectively, especially in developing countries (Lui and Ngo, 2004; Nguyen, Weinstein and Meyer, 2005). Relational capital and mutual trust can help partners protect themselves from costs and exploitation (Kale, Singh and Perlmutter, 2000). Based on a literature review, Ireland, Hitt and Vaidyanath (2003) argued that organizational alliances can be a source of competitive advantage and proposed that partners, in addition to government mechanisms to monitor and control the alliance, should build effective interpersonal connections.

Strong interpersonal relationships have been theorized to be vital for the coordination of resources. This study proposes that a central dynamic by which they contribute to collaboration between competitors is by orienting them to manage their conflicts
cooperatively. With strong relationships, people have experienced mutually beneficial interaction and have reason to believe that their major goals are positively related (Deutsch, 1973). They expect others will assist them and take their perspective. With this confidence, they are ready to express their ideas and deal with frustrations and then communicate that they would like to resolve issues for mutual benefit.

In contrast, collaborators with weak interpersonal relationships have experienced mutually frustrating interaction and become skeptical that others are willing to further their interests (Deutsch, 1973). Others are seen as self-absorbed, focused on pursuing their own self-interests only. With this suspicion, they assume that they must negotiate toughly if they are to further their own interests, protect themselves, and avoid losing. They communicate they want to win conflicts.

Based on this reasoning, it is hypothesized that:

H3. To the extent that managers from competitive organizations have guanxi, they approach their conflicts cooperatively.

H4. To the extent that managers from competitive organizations have guanxi, they avoid approaching their conflicts competitively.

**Overall Model**

Theory and research suggest that approaches to conflict mediate between guanxi and perceived alliance effectiveness. Guanxi is expected to contribute to collaboration by fostering the cooperative approach to managing conflicts and reducing the competitive approach. This study uses structural equation modeling to test this theorizing and to compare it to alternatives.

**METHOD**

**Participants**

This study investigates the conditions and dynamics of collaboration between competitive organizations in mainland China. Data were collected in Shanghai, China, from different kinds of organizations from various industries. One hundred and thirty organizations were recruited in Shanghai through our connections to participate in the study. Similar to previous studies of inter-firm relationships (Rindfleisch and Moorman, 2001), we used the key informant approach. Consistent with past studies on inter-firm relationships (Kale et al., 2000; Rindfleisch and Moorman, 2001; Yli-Renko, Autio and Sapienza, 2001), we asked the key informant to focus on collaboration with one of the firm’s major competitors. This approach does not require the informant to respond to collaboration generally but allows them to focus on a specific relationship. The informant also identified the competitor organization. We then independently contacted the competitor organization to identify a person knowledgeable about the relationship with the informant organization and willing to complete the questionnaire. Respondents did not know who was completing the other questionnaire. They completed the questionnaires on paper mainly during work time. The key informants in each organization were asked to respond to different measures describing the relationship.

Out of the 130-paired competitors, 12 pairs withdrew because of the lack of time or interest in the study; 118 sets of questionnaires were collected. However, 18 sets were not complete because they lacked the pairing response from either the informant organization or the competitor organization. Thus, 100 sets of questionnaires were included in the data analysis. Participants were assured that their responses would be kept confidential.

The informant organizations were asked to provide data on the variables of personal guanxi and conflict management. The competitor organizations were asked to provide data on the outcome variable of perceived alliance effectiveness. This procedure should reduce same source bias.

Of the respondents, 52% of them were front line staff, 22% were junior managers, 23% were intermediate managers, and 3% were senior managers. The percentages for male
and female respondents were 62% and 38% respectively. Their education level was 68% at university level, 19% at senior secondary level, 8% at postgraduate or above, and 5% below senior secondary level. Regarding age, 45% of the respondents were younger than 30, 41% were between 30 and 39, 10% were between 40 and 49, and 4% were above 50. The average length of relationships between the informant organizations and the competitor organizations was 3.5 years.

Measures

Guanxi. Guanxi refers to the relationships between members in the informant organization and members in the competitor organization that are responsible for the collaborative relationships. This scale was developed from Law, et al. 2000 and Wong, et al, 2003. They argued that guanxi as a Chinese concept means a close, quality relationship that is characterized by generous interactions after office hours. Guanxi is not just liking and satisfaction but a sense of closeness and obligation. They further argued that guanxi in China should be measured by mainly non-work exchange between employees and the benefits being exchanged can be social and economic in nature (Law et al, 2000; Wong, et al, 2003). Respondents were asked to rate their likelihood of exhibiting these behaviors on a 5-point scale (1=strong disagree, 5=strongly agree). A sample item is “Members in both companies invite each other for lunch or dinner”. The coefficient alpha for this scale was .80.

Approaches to conflict. The cooperative approach to conflict involves interactions that communicate the intention to seek a mutually beneficial solution; a competitive approach indicates that protagonists are trying to win (Deutsch, 1973). Scales for cooperative and competitive approaches to conflict management were developed from a previous questionnaire study conducted in North America (Alper et al, 1998). For the section in the questionnaire designed to measure conflict approaches, respondents were asked to use the items to indicate how they negotiate their differences with their partners. The cooperative approach to conflict scale measured the interactions focused on resolving issues for mutual benefit as they negotiated their differences. A sample item from the five items cooperative conflict scale is “The partner and we treat conflict as a mutual problem to solve”. Participants in the informant organizations were asked to rate on a 5-point scale (1=strongly agree, 5=strongly disagree) their degree of agreement to the five statements. Coefficient alpha for the cooperative conflict scale was .74. The competitive approach to conflict scale had four items with similar anchors to measure the emphasis on trying to win the conflict as partners negotiated their differences. A sample item is “The partner and we demand that the other agree to our own position”. Coefficient alpha was .86.

Perceived alliance effectiveness. This measure is the partner firm’s perception of the degree to which the alliance has attained predetermined goals and objectives (Bucklin and Sengupta, 1993). The four-item scale was adapted from Perry, Sengupta and Krapfel (2004). A sample item is “The partnership accomplishes its objectives.” Respondents from the competitor organizations were asked to rate on a 5-point scale (1=strongly agree, 5=strongly disagree) their degree of agreement to the four statements. The scale had a coefficient alpha of .68.
ANALYSES

Scale Validation

We conducted a series of confirmatory factor analyses to test whether the respondents’ rating would load on four distinct factors, namely guanxi, cooperative, competitive conflict approaches, and perceived alliance effectiveness, to ensure that the items were measuring distinct constructs.

The confirmatory factor analyses were conducted using LISREL8 (Joöreskog and Soörbom, 1996). The effective sample size for the present study was 100 partners. The indicators to sample size ratio hence was favorable with four latent constructs.

Table 1.
Scale validation --- confirmatory factor analysis

<table>
<thead>
<tr>
<th></th>
<th>$\chi^2$</th>
<th>df</th>
<th>$\Delta\chi^2$</th>
<th>CFI</th>
<th>IFI</th>
<th>RMSEA</th>
<th>Std RMR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline 4-Factor Model (M0)</td>
<td>140.42</td>
<td>112</td>
<td>-</td>
<td>.91</td>
<td>.91</td>
<td>.51</td>
<td>.08</td>
</tr>
<tr>
<td>3-Factor Model (M1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined Guanxi with Cooperative Conflict</td>
<td>254.18</td>
<td>115</td>
<td>113.8**</td>
<td>.76</td>
<td>.77</td>
<td>.11</td>
<td>.12</td>
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<tr>
<td>3-Factor Model (M2)</td>
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<td></td>
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<td></td>
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<tr>
<td>Combined Guanxi with Perceived Alliance Effectiveness</td>
<td>213.51</td>
<td>115</td>
<td>73.1**</td>
<td>.82</td>
<td>.83</td>
<td>.09</td>
<td>.11</td>
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<tr>
<td>3-Factor Model (M3)</td>
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<td></td>
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<td></td>
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<tr>
<td>Combined Cooperative Conflict with Perceived Alliance Effectiveness</td>
<td>200.35</td>
<td>115</td>
<td>59.93**</td>
<td>.83</td>
<td>.84</td>
<td>.087</td>
<td>.091</td>
</tr>
</tbody>
</table>

Note:
1. 4-factor Model includes guanxi, cooperative conflict, competitive conflict, and perceived alliance effectiveness.
2. $\chi^2$ is the model chi-square; $\Delta\chi^2$ is the change in model chi-square
3. IFI = Incremental Fit Index; CFI = Comparative Fit Index
4. RMSEA=Root Mean Square Error of Approximation; Std RMR=Root Mean Square Residual
5. **p<.01

Table 1 shows the results of these series of confirmatory factor analyses. Model M0 in Table 1 demonstrates that our proposed 4-factor model fits the data quite well. The Comparative Fit Index (CFI) and the Incremental Fit Index (IFI) are .91 and .91. This 4-factor model was then compared to three different 3-factor models. Each of these 3-factor models was formed by merging two of the four variables into one aggregate factor. These three alternative 3-factor models were selected based on the inter-correlations among the four variables. Guanxi is correlated with the cooperative approach to conflict and perceived alliance effectiveness ($r=.22$ and $r=.35$ respectively). Cooperative conflict approach and perceived alliance effectiveness are also positively related ($r=.35$). These three pairs of variables were each combined to form a single factor that was tested against the proposed 4-factor model.
Results in Table 1 show that model chi-squares increase significantly when we move from the 4-factor model to any of the three 3-factor models. The comparisons of the fits of the 4-factor model to three 3-factor models suggest that the four factors are distinct measures of the constructs in our study.

**Hypotheses Testing**

Correlational analyses were used as an initial test of the hypotheses. Structural equation analyses were used to test the proposed model connecting guanxi, conflict management approach, and perceived alliance effectiveness. The covariance structure analysis of the inter-relationship among these constructs was analyzed using LISREL8 (Joöreskog and Soörbom, 1996).

A nested model test commonly adopted in causal model analysis was used to evaluate the argument that conflict management approach mediates the link between guanxi and perceived alliance effectiveness. This Mediating Effects or the Hypothesized model was compared to the Direct Effects model that posited that guanxi impacts outcomes directly. In addition, an Alternative Model was developed based on the argument that conflict management approach affects guanxi that in turn affects outcomes.

**RESULTS**

Zero-order correlations provide an initial examination of the hypotheses linking guanxi, and conflict approaches as rated by respondents in the informant organizations and perceived alliance effectiveness as rated by respondents in the competitor organizations (Table 2). In support of hypothesis one, a cooperative approach to conflict was positively and significantly correlated with perceived alliance effectiveness ($r=.35, p<.01$). Consistent with hypothesis two, a competitive approach to conflict was negatively and significantly correlated with perceived alliance effectiveness ($r=-.38, p<.01$). Results also provide support for hypothesis three that to the extent that managers from competitive organizations have guanxi they manage their conflicts cooperatively ($r=.22, p<.05$) and support hypothesis four that guanxi partners have low levels of competitive conflict ($r=-.23, p<.05$).

**Table 2.**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S. D.</th>
<th>Items</th>
<th>Alpha</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guanxi</td>
<td>3.52</td>
<td>.88</td>
<td>4</td>
<td>.80</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooperative Approach</td>
<td>3.66</td>
<td>.67</td>
<td>5</td>
<td>.74</td>
<td>.22*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitive Approach</td>
<td>2.62</td>
<td>1.00</td>
<td>4</td>
<td>.86</td>
<td>-.23*</td>
<td>-.29**</td>
<td></td>
</tr>
<tr>
<td>Perceived Alliance Effectiveness</td>
<td>3.80</td>
<td>.60</td>
<td>4</td>
<td>.68</td>
<td>.35**</td>
<td>.35**</td>
<td>-.38**</td>
</tr>
</tbody>
</table>

* $p < 0.05$
** $p < 0.01$
## Table 3.
Full effects, mediated, direct effects and alternative models

<table>
<thead>
<tr>
<th>Model</th>
<th>χ²</th>
<th>df</th>
<th>∆χ²</th>
<th>CFI</th>
<th>IFI</th>
<th>RMSEA</th>
<th>Std RMR</th>
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<tr>
<td><strong>Full Effects Model</strong></td>
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<tr>
<td>Guanxi has direct links to Cooperative Conflict, Competitive Conflict and Perceived Alliance Effectiveness; Cooperative Conflict and Competitive Conflict have direct links to Perceived Alliance Effectiveness</td>
<td>140.42</td>
<td>112</td>
<td>.91</td>
<td>.91</td>
<td>.051</td>
<td>.08</td>
<td></td>
</tr>
<tr>
<td><strong>Mediating Effects (Theorized) Model</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Guanxi has direct links to Cooperative Conflict and Competitive Conflict; Cooperative Conflict and Competitive Conflict have direct links to perceived alliance effectiveness (deleting links from Guanxi to Perceived Alliance Effectiveness)</td>
<td>147.44</td>
<td>113</td>
<td>7.02**</td>
<td>.90</td>
<td>.90</td>
<td>.055</td>
<td>.88</td>
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<tr>
<td><strong>Direct Effects Model</strong></td>
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</tr>
<tr>
<td>Guanxi has direct links to Cooperative Conflict, Competitive Conflict and Perceived Alliance Effectiveness (deleting links from Cooperative Conflict, Competitive Conflict to Perceived Alliance Effectiveness)</td>
<td>158.62</td>
<td>114</td>
<td>18.20**</td>
<td>.88</td>
<td>.89</td>
<td>.063</td>
<td>.11</td>
</tr>
<tr>
<td><strong>Alternative Model (A1)</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Cooperative Conflict and Competitive Conflict have direct links to Guanxi; Guanxi has direct links to Perceived Alliance Effectiveness</td>
<td>158.62</td>
<td>114</td>
<td>18.20**</td>
<td>.88</td>
<td>.89</td>
<td>.063</td>
<td>.11</td>
</tr>
</tbody>
</table>

**Note:**

1. χ² is the model chi-square; ∆χ² is the change in model chi-square
2. IFI= Incremental Fit Index; CFI=Comparative Fit Index
3. RMSEA=Root Mean Square Error of Approximation; Std RMR=Root Mean Square Residual
4. *p<.05

Structural equation analyses were used to examine possible causal relationships (Table 3). The Mediating Effects and the Direct Effects models were compared and the Full Effects model (with both the mediating effects and the direct effects of guanxi) were also computed. The chi-square of the Mediating Effects model was χ²=147.44 (d.f.=113, p<.01). The chi-square of the Direct Effects model was 158.62 (d.f.=114, p<.01). The difference between the Mediating Effects model and the Direct Effects model was significant (∆χ²=11.18, p<.01), indicating that omission of the mediating effects of conflict approaches significantly deteriorated the Mediating Effects model. In addition, the difference between the Mediating Effects and the Full Effects model was significant (∆χ²=7.02, p<.01), suggesting that the Full
Effects model provides a better fit than the Mediating Effects model. These results suggest that conflict management approach does not fully mediate the link between guanxi and perceived alliance effectiveness. The results of the Alternative model where conflict management approach affects guanxi that in turn affects outcomes suggested that this model did not fit the data very well. Its chi-square was 158.62 (d.f.=114, p<.01) with fit indices below the generally accepted level of 0.90 (Bentler and Bonnett, 1980).

The path coefficients of the Full Effects model help to explore the findings more specifically (Figure 1). Guanxi had a positive though not significant impact on cooperative conflict management (β=.18, p=n.s.) and a significant negative effect on competitive conflict management (β=-.29, p<.01). Cooperative conflict management had a positive impact on perceived alliance effectiveness, but this effect was not statistically significant (β=.23, p<.10). Competitive conflict management had a significant negative effect on perceived alliance effectiveness (β=-.36, p<.01). Guanxi had a significant effect on perceived alliance effectiveness (β=.30, p<.01). Findings on path coefficients generally provide good support for the study’s hypotheses, except that the paths from guanxi to the cooperative approach and from the cooperative approach to alliance effectiveness were not statistically significant.

**Figure 1.**
Path estimates for the full effects model

![Path estimates for the full effects model](image)

† p < .10

** p < .01

**DISCUSSION**

Results of the structural equation analysis provide good support for the proposed model that the cooperative and competitive approaches to conflict mediate between guanxi and collaborative effectiveness of competitive organizations. Managers of competitive organizations that have strong personal connections were found to avoid discussing their various conflicts in competitive, win-lose ways. Low levels of this competitive approach to conflict predicted to effective partnering between competitors. However, with little guanxi, competitors were more competitive in their approach to managing conflict and thereby collaborated ineffectively.
Researchers have investigated guanxi from various perspectives and continue to debate its meaning and overall value and whether it is unique to Chinese society and is needed to supplement China’s often ineffective rules and roles (Chen and Chen, 2004; Hwang, 1997-8; Xin and Pearce, 1996). This study supports the theorizing that guanxi relationships can contribute to organizational work in China (Chen and Chen, 2004; Hui and Graen, 1997).

Results also address the dynamics by which guanxi facilitates effective collaboration. Traditionally, it has been reasoned that close personal connections minimize conflict, which is consistent with the idea that conflict avoidance is the culturally prescribed way to deal with conflict in China in order to protect relationships (Triandis et al, 1990; Tse et al, 1994). In contrast, this study argued that guanxi would have its effects by increasing the reliance on the cooperative approach to conflict and by reducing the use of the competitive approach to conflict. Consistent with this study’s expectations, path estimates results suggest that guanxi has its effects by reducing the competitive approach, but inconsistent with expectations, guanxi did not increase the cooperative approach.

How does guanxi promote partnerships by reducing the competitive approach to conflict more than by increasing the cooperative? It may be that organizations in the same industry that are developing a partnership arrangement generally recognize the value of a cooperative approach; approaching conflict cooperatively is part of being a partner. Yet, these organizations still apply the competitive approach to dealing with some conflicts. Indeed, they try to outdo each other for customers; they understand that their role is to compete against each other in the emerging free market system of China. However, by developing guanxi, competitive organizations conclude that they are close allies as well as partners and realize that they do not have to approach their differences in this win-lose way. This realization in turn helps them collaborate effectively.

The study’s results may help to clarify the traditional theorizing that guanxi leads to conflict avoidance. This traditional theorizing is inconsistent with considerable research in the West that strong relationships promote open, constructive conflict management and this conflict management in turn strengthens relationships (Deutsch, 1973; Tjosvold, 1998). Perhaps in China, guanxi’s effects on reducing the competitive approach to conflict may be seen as reducing conflict itself. Additional research is needed to explore this speculation on the links between guanxi and cooperative and competitive approaches to conflict.

This study used the concept and operations of guanxi as developed by Law, et al (2000) and Wong, et al (2003). These researchers defined guanxi as close, high quality relationships but in China these relationships are not so much about liking or satisfaction as in the West but more about how people treat each other and the benefits and favors that they bestow on each other. Consequently, the items measuring guanxi in this study involve questions about their interactions, including those outside of work. Might not these items though much more directly measure interaction behaviors and activities rather than an underlying quality of a relationship?

The idea of defining guanxi in terms of interaction activities may help to clarify how the Chinese concept of guanxi compares with Western ideas of quality relationships. Guanxi is about interpersonal treatment and exchange, the Western developed idea of leader-member relationships is measured by such items as “confidence in each other’s capability” and “satisfaction with each other’s work” (Graen & Uhl-Bien, 1995). Researchers should realize that guanxi might differ significantly from Western ideas about quality of relationship as measured by liking and satisfaction. Studies are needed to identify more specifically the differences between guanxi and such ideas as leader-member relationship. It appears that that the nature of relationships critically affects work in the West as in the China, especially in today’s open, networked organizations and economies (Miles et al., 1977). However, there may be subtle, but important differences in how quality relationships are developed and manifested in China compared to the West.
The framework of examining conflict management in terms of the cooperative and the competitive approach to conflict, despite their origin in the West, proved useful for understanding conflict and partnering in China (Deutsch, 1973). Indeed, the means (Table 2) suggest that organizations used both cooperative and competitive approaches in dealing with issues. The research approach of identifying conditions that impact organizational dynamics and outcomes in China with theoretical concepts with universalistic aspirations may be a viable addition to the traditional alternatives of comparing samples from different cultures and exploring a cultural variable with an indigenous theory (Leung, 1997). This study illustrates that using Western ideas and indigenously developed ideas can be complementary; its research approach can probe general theories, relate them to indigenous concepts, and improve understanding of organizational dynamics in non-Western cultures.

Recent studies have shown that competitors can benefit from collaboration as can their customers, thereby exposing limitations to the stereotype that an effective market economy is characterized only by competition between competitive organizations (Bengstsson and Kock, 2000; Brandenburger and Nalebuff, 1996; Hitt, et al., 2002; Jacobides, 2005; Rowley et al., 2005). Guanxi relationships and conflict management between organizations, including competitive organizations, appear to be important ingredients to developing effective market economies.

**Practical Implications**

Previous research has documented the potential value of collaboration between competitors. Results of this study identify close, quality relationships and reduced competitive approach to conflict as critical ingredients to making inter-organizational work productive. Managers from competitive organizations can spend time away from work enjoying being together. They seek to understand each other in their work and families lives as well as celebrate their common achievements. Indeed, business dinners to begin projects and to celebrate their completion are popular fixtures in doing business in China.

But in contrast to common thinking about business practice in China (Morris, et al, 1998; Pan and Zhang, 2004), results of this study indicate that managers from these competitive organizations should understand the importance of managing their conflicts, in particular, to realize that the competitive approach can undermine their partnership. They recognized that to reinforce their guanxi relationships they should avoid discussing conflicts in win-lose ways. Although the paths to and from the cooperative approach to conflict were not statistically significant, it would seem that training sessions could orient managers of competitive organizations towards the cooperative approach to conflict and its skills of self-expression, perspective-taking, and creative problem solving as a practical alternative to the competitive approach (Tjosvold, 1993). Managers work to resolve the conflict so that both organizations benefit, not just one, and combine the best ideas to implement a solution that promotes mutual goals rather than one firm’s goals at the expense of the other.

Findings support the recent emphasis that how conflicts are managed very much affects effective collaboration. Specifically, Deutsch’s cooperative and competitive approaches to conflict were able to identify conditions that affect the extent that conflicts promote effective collaboration between competitive organizations. Organizations where managers developed close, high quality interpersonal relationships, guanxi, were found to reduce their use of the competitive approach to conflict that in turn helped them work productively together. Managers with weak guanxi emphasized competitive, win-lose ways to deal with conflicts that disrupted coordination. Theories and ideas developed in one culture cannot be assumed to apply to another (Hofstede, 1993). However, the cooperative and competitive approach to conflict may be useful both in the West and East. If so, it could provide a framework for collaboration in such settings as Sino-Western joint ventures and other partnerships to deal with the many relational and task conflicts that threaten to divide them (Jassawalla and Sashittal, 1999).
REFERENCES


