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**Power Source Drivers and Performance Outcomes of Functional and Dysfunctional Conflict in Exporter–Importer Relationships**

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## Abstract

Although conflict is natural in buyer–seller relations, the issue has largely been studied in domestic market settings despite increasing globalization and the surge of cross-border inter-firm relationships. This research focuses on two different types of conflict, functional and dysfunctional, and examines how these are linked to coercive and non-coercive power bases and performance outcomes in exporter–importer relationships. Using survey data from 105 pairs of exporters and their foreign distributors, we find that only in the exporter group the use of coercive power by the foreign distributor lowers functional conflict. However, the use of coercive power by the overseas partner increases dysfunctional conflict and the use of non-coercive power reduces such conflict across both exporters and importers, although in the importer group this link is not significant. The results also suggest that functional conflict enhances performance only among importers. The use of problem solving conflict resolution boosts functional conflict's impact on performance among exporters, but adversely affects the performance effect of such conflict in the importer group. Nonetheless, problem solving resolution negatively affects the impact of dysfunctional conflict on performance in both the exporter and importer groups. Moreover, we find that power distance boosts the impact of dysfunctional conflict on performance in the relationship across the groups of exporters and importers. Implications of the findings for international marketing theory and practice are discussed, and limitations of the study considered along with future research directions.



**Keywords:** power sources, functional and dysfunctional conflict, conflict resolution, power distance, performance, exporter–importer dyads.

## 1. Introduction

Over the past three decades there has been a surge in the frequency and scale of inter-organizational exchange relationships at both domestic and international levels. This has resulted in significant research interest in the study of behavioral aspects underpinning the establishment, development, and management of inter-firm cooperative arrangements. Within the wide range of rich research streams that have been pursued, conflict has been recognized in the marketing channels literature as an integral element of relationships between organizational customers and their suppliers (e.g., Van der Maelen, Breugeimans, & Cleeren, 2017; Hoppner, Griffith, & White, 2015). The presence of conflict in inter-firm relationships is rooted in the interdependence that inherently exists between the exchange partners, which is based on the fact that each side specializes in accomplishing certain tasks in the relationship (e.g., Gaski, 1984; Palmatier, Stern, El-Ansary, & Anderson, 2013). There is no doubt that understanding the phenomenon of conflict in buyer–seller business exchanges can lead to long-lasting close collaborative partnerships.

Notwithstanding the considerable managerial interest and research attention to the issue of conflict in business relationships, a systematic review of the literature identifies certain important issues that warrant consideration. First, the bulk of extant research has largely viewed conflict between buyers and their suppliers as harmful and unconstructive behaviors that mark weak business associations (e.g., Gaski, 1984; Frazier, 1999). However, it has been proposed that conflict can not only have negative, destructive elements in relational exchanges, but can also produce positive, constructive outcomes in buyer–seller interactions (e.g., Bucklin & Sengupta, 1993; Menon, Bharadwaj, & Howell, 1996). Compared to the substantial amount of empirical study on conflict's destructive outcomes, relatively limited research is conducted on its constructive elements and implications for the relationship (e.g., Geyskens, Steenkamp, & Kumar, 1999; Skarmeas, 2006). Even more

important is that there is a dearth of research on work that simultaneously considers the different roles and effects of these diverse conflictual behaviors in business associations, limiting our understanding of the whole picture of conflict in buyer–seller interactions. Examination of both types of conflictual attitudes and behaviors would enable a holistic understanding of this important phenomenon in inter-firm relations regarding drivers of its functionality and dysfunctionality and how the two are linked to performance outcomes.

Second, empirical studies on the link between conflict and qualitative outcomes and performance across different types of relationships have produced discordant findings. While some research efforts indicate that conflict reduces beneficial relationship outcomes and performance (e.g., Anderson & Narus, 1990; Brown, Lusch, & Smith, 1991; Leonidou, Samiee, Aykol, & Talias 2014), several other studies report no significant link (e.g., Bobot, 2011; Passos & Caetano, 2005), and still other efforts find that conflict has positive effects (e.g., Cooper & Watson, 2011; Skarmeas, 2006). These mixed results indicate that the connection between conflict and performance outcomes in the relationship is ambiguous and complex and that conflict's effects on performance may not be the same under all circumstances (cf. Menguc, Auh, Katsikeas, & Jung, 2016). This is an important limiting consideration in current work that requires attention, as it inhibits the development of coherent cumulative knowledge in the extant literature.

Third, the majority of studies on buyer–seller relationships, in general, and conflict, in particular, have been undertaken within the context of the domestic market. The issue of conflict has received limited empirical attention in cross-border exchange relationship settings. Even more important is the fact that the vast majority of studies on international business relationships are conducted either from the standpoint of the seller (e.g., Hoppner et al. 2015; Griffith & Zhao, 2015) or from the perspective of the purchasing organization (e.g., Katsikeas, Skarmeas, & Bello, 2009; Skarmeas, 2006). Scant empirical attention has been

devoted to the study of both the buyer and the seller, which constitute two active components in the international exchange partnership. This is an important gap in the literature as cross-border inter-firm exchange phenomena have commonly been studied only on the basis of attitudes and perceptions of the one side in the relationship, while the counterpart's position and standpoint in the trading association are essentially ignored.

In view of these limiting considerations in the pertinent literature, the primary purpose of this study is to examine the issue of conflict in cross-border business associations. More specifically, this research focuses on the presence of conflict in exporter–importer relationships and investigates its power source-related drivers and performance outcomes. In contrast to relationships in the domestic market, international business associations are influenced by the different operating environments of the exchange partners typically characterized by differences in economic, political, regulatory, and socio-cultural factors, competitive forces, business practices, market characteristics, and customer behavior between home and host markets (e.g., Durand, Turkina, & Robson, 2016; Leonidou, Aykol, Fotiadis, & Christodoulides, 2017). Therefore, building and managing business relationships with trading partners in foreign markets is a more challenging task than buyer–seller relationships in the domestic market and, in turn, makes the study of drivers and performance outcomes of conflict in a cross-border dyadic context a particularly interesting issue for investigation.

This study contributes to the pertinent literature in various important ways. First, we pursue the distinction between functional conflict and dysfunctional conflict and consider how these two different types of conflict are connected with performance outcomes in the relationship.[1] We recognize that, in addition to the unhelpful, destructive elements associated

[1]Consistent with inter-firm exchange research (e.g., Bello, Katsikeas, & Robson, 2010; Palmatier, Dant, Grewal, & Evans, 2006), we focus on each firm's performance through the relationship with the foreign partner. Exporters and importers naturally use different frames of reference when assessing their own performance. While both partners desire a successful relationship, success can differ between the two because they might be aspiring to achieve different outcomes. Exporters may well assess their performance achieved through a foreign distributor relationship on the basis of that relationship's contributions to the exporter's own sales and financial

with conflictual attitudes and behaviors, disagreements between the parties may also have positive, constructive ingredients that can strengthen the quality of interactions and the overall relationship. In this way, we integrate the literature on conflict and suggest that these two different types of conflict can co-exist even though that they are likely to yield different performance outcomes. Further, work on distribution channels has paid attention to examining how different types of power sources are related to conflict (e.g., Gaski and Nevin, 1985; Rawwas, Vitell, & Barnes, 1997; Zhuang, Xi, & Tang, 2010). We extend this examination by considering relationships of coercive power and non-coercive power bases with functional and dysfunctional conflict in cross-border exchanges.

Second, we consider conditions under which the strength and direction of the relationships of functional conflict and dysfunctional conflict with performance outcomes vary. We draw from the literature on conflict resolution and examine the relevance of problem solving conflict resolution, which is a distinct mechanism that companies often employ in dealing with disagreements and conflict situations, in potentially moderating the links between functional conflict and dysfunctional conflict and performance in the relationship. Furthermore, based on prior research on the role of national culture (e.g., Hofstede, 2001), we consider the importance of power distance in the firm's operating environment in influencing these conflict–performance links. We contribute to the literature by indicating that problem solving conflict resolution plays a different role across the two distinct types of conflict and across the exporter and importer groups, as well as that power distance conditions the dysfunctional conflict–performance link, which might help reconcile discordant findings in prior studies.

Finally, this empirical study investigates the phenomenon of conflict in cross-border exchange partnerships by considering both sides of the relationship. It adds to the body of

outcomes from the specific foreign market. In contrast, importers might assess performance in their local market based not only on maximizing sales and profits for the imports from a specific foreign supplier, but also on the contribution of these imports to their product portfolio and overall sales.

research in international inter-firm collaboration that typically examines behavioral aspects underpinning business relationships either from the perspective of the supplier or less often from the standpoint of the purchasing side. In this research, we adopt a dyadic approach to examining drivers and performance outcomes of functional conflict and dysfunctional conflict by focusing on pairs of relationships between exporters and importers. Despite heightened difficulties in collecting paired data in the context of international exchange, this approach enables us to overcome concerns with one-sided studies of inter-firm relations and broaden our understanding of the complexities involved in international buyer–seller interactions, which reflect an inherently dyadic business phenomenon (e.g., Johnson, Cullen, Sakano, & Takenouchi, 1996).

## 2. Literature review and hypotheses development

### 2.1 The issue of conflict in buyer–seller relationships

There are two broad schools of thought that can be identified in the conflict literature: one school concerns the traditional viewpoint where conflict is viewed as bad for the relationship, while another school represents the more recent interactionist perspective that views conflict as energizing for a company that has strengthening and unifying elements for a group (Banner, 1995). Neither the occurrence nor the outcomes of conflict are solely and completely determined by objective circumstances, but the psychological processes of perceiving and valuing turn such a phenomenon into the experience of conflict (Deutsch, 1969). Much of the traditional research has developed various views of conflict including task vs. emotional, cognitive vs. relationship, or substantive vs. affective conflict. Substantive conflict, also labeled as task (e.g. Jehn, 1994; Rose & Shoham, 2004), issue (e.g. Rahim, 2011), or cognitive (e.g. Amason, 1996; Ohbuchi & Suzuki, 2003) conflict, originates from differences in opinions regarding tasks, procedures, strategy, business ideas, and other

business-related issues. Resolving such conflict involves evaluation of opinion and ideas based on logic and evidence, as well as critical and innovative thinking. Affective conflict, also labeled as emotional (e.g. Rose, Shoham, Neill & Ruvio, 2007), relationship (e.g. Jehn, 1997), psychological (e.g. Rahim, 2011), or interpersonal (e.g. Ohbuchi & Suzuki, 2003) conflict, is caused by incompatibility in emotions and feelings regarding issues of interest between two social entities. Actions taken by one or both parties usually include personal attacks, personality clashes, sarcasm, criticism, and making fun of the other side's ideas, leading to distrust, anger, frustration and hostility in the relationship.

When there are emotions of anger, anxiety, hostility, frustration or tension, the conflict in the exchange relationship is felt or affective. Such conflict is not only present at the organizational level, but individuals within the organization tend to make it more personal, while their tendencies toward punishing their partners may not always be in the best interest of their company (Coughlan et al., 2006). The personalization of conflict makes most partners in the relationship to be concerned with the dysfunctional consequences of conflict. Conflict becomes personalized when the "inconsistent demands of efficient organization and individual growth create anxieties within the individual" (Pondy, 1967, p. 302). If affective conflict is not managed effectively and quite early, it can become manifest conflict that involves particularly negative behavior including lack of support to the partner, blocking of their initiatives, and preventing them from achieving their goals (Coughlan et al., 2006).

Researchers, who view conflict as a multi-component phenomenon with both negative and positive outcomes, distinguish between constructive conflict and destructive conflict for the development and existence of the relationship. For instance, Song and colleagues (2006) defined constructive (destructive) conflict as a state, when employees (do not) feel good about their working relationships after conflict dynamics occurred. These authors' findings (i.e., a negative link between compromise conflict-resolution style and destructive conflict

and the absence of a significant connection between compromise and constructive conflict) suggest that constructive and destructive conflict "may not be at opposite ends of a conflict continuum, as is commonly supposed, but instead may represent different concepts" (p. 352).

For present purposes we adopt this perspective and thus differentiate between two distinct types of conflict: functional and dysfunctional. Functional conflict is viewed as disagreements that concern the tasks of each party and focus on different viewpoints about the accomplishment of common goals in the relationship (Bobot, 2011; Rose & Shoham, 2004). It constitutes an assessment of the results of the two parties' efforts to manage differences in perceptions or disagreements in a way that is beneficial to the relationship (Anderson & Narus, 1990). Dysfunctional conflict concerns Menon et al. (1996) unhealthy behaviors between the partners that involve friction, anger, classes, and tension in their interactions that can build hostility and distrust (Menon et al., 1996; Thomas, 1992). Such conflict typically creates obstacles that inhibit relationship decisions and ultimately has the potential to hurt the cross-border business exchanges (Rose & Shoham, 2004; Ruekert & Walker, 1987). This empirical inquiry focuses on power source drivers and performance outcomes of both functional conflict and dysfunctional conflict in cross-border business associations. Informed by both the international marketing and channel conflict literature, we examine the relationships of functional and dysfunctional conflict with performance outcomes and the potentially important role that problem-solving conflict resolution strategy and power distance within a firm's operating environment play in moderating these links. In addition, drawing on the broad power literature, we distinguish between coercive and non-coercive power bases and investigate how the use of these power bases is linked to functional and dysfunctional conflict. Figure 1 exhibits the conceptual framework in this study. Subsequently, we present the development of our research hypotheses.

**… Insert Figure 1 here …**

## 2.2. Coercive and non-coercive power and functional and dysfunctional conflict

Power and its sources have been researched by many scholars (e.g., Frazier, Gill, & Kale, 1989; Gaski & Nevin, 1985; Hunt & Nevin, 1974; Moore, Birthwistle, & Burt, 2004; Zhuang et al., 2010), especially in domestic market contexts (Katsikeas, Leonidou, & Morgan, 2000). In the literature (e.g., Johnson, Sakano, & Onzo, 1990; Zhuang & Zhou, 2004), there are two basic viewpoints as regards the origins of power. One viewpoint stems from dependence-power theory and views a channel member's power over another as derived from that firm's dependence on the dominating firm (Frazier et al., 1989). The second viewpoint, drawing from French and Raven's (1959) thinking, recognizes the existence of power bases that underpin power relations in buyer–seller trading associations (e.g., Katsikeas et al., 2000; Zhuang & Zhou, 2004). In line with this latter standpoint, for present purposes we follow the distinction between coercive and non-coercive power that is most widely employed in the literature (Rawwas et al., 1997; Yavas, 1997; Zhuang et al., 2010).[2]

While coercive power is commonly associated with the imposition of punishments by one party on the other, non-coercive power is typically reflected in the use of rewards. Non-coercive power concerns the ability of one party to offer rewards to and/or remove or reduce sanctions imposed on the other party (e.g., Brown, Lusch, & Muehling, 1983). The literature highlights the important role of financial rewards, as opposed to non-financial ones, granted to a member for altering their behavior (Coughlan et al., 2006). Use of rewards usually yields better results than the adoption of coercive measures (e.g., punishments). The ability of one party to offer positive elements (e.g., promotional efforts, unique market information, and special privileges) and to remove or lower negative elements received by the counterpart

[2] Other typologies have also been proposed in the literature. One approach concerns the distinction between mediated (i.e., promises of reward, threats of punishment, and legalistic strategies) and non-mediated (information exchange, requests, and recommendations) influence strategies (e.g., Johnson et al., 1990). Another classification is between economic (i.e., reward, coercion, and legal legitimate) and non-economic (expertise, identification, and traditional legitimate) power bases (e.g., Brown et al., 1983; Lusch & Brown 1986).

(e.g., Brown et al., 1983; Raven, 2008) is a reflection of reward power. In this study's research context, exporting firms can provide their overseas partners with varying kinds of assistance or rewards including attractive margins, promotional allowances, credit facilities, and exclusive rights; likewise, importing distributors can provide their foreign suppliers with similar types of rewards or assistance including promotional support, conducting local market research, offering business advice, ordering new products, and making prompt payment (Gaski & Nevin, 1985; Katsikeas et al., 2000). Such elements represent a positive working climate in the relationship where each party is perceived by the other firm to be at a good position to make assessments of the partner's actions in a fair way, draw the attention of the partnering firm to this firm's actions when these are not well considered by them, provide valuable information to the counterpart, and/or receive the suggestions and judgment of their overseas partner in a positive fashion.

We argue that non-coercive power actions using such rewards or assistance are likely to influence different types of conflict between the exporter and the importer in different ways. More specifically, rewards that are granted by one party to influence the behavior of the counterpart may be interpreted by the partner as positive acts that can facilitate constructive interactions between the parties. It is expected that such actions will serve as a platform for both the importer and exporter to enhance interactions to inject and utilize elements of understanding of each other's ways of working and requirements and sensitivity to one another's position and thinking. The parties may also exhibit heightened energy and readiness to work together toward productively coping with and addressing disagreements and tension in the business association (c.f., Katsikeas et al., 2000). However, use of such non-coercive power elements in the form of assistance or rewards is likely to have an opposite effect in the case of dysfunctional conflict. It is expected that such assistance or rewards are likely to ease dysfunctional conflict in the exporter–importer relationship with

the parties engaging in fewer personality clashes with each other and less friction and anger in their communication and trading interactions. In fact, offering assistance or granting rewards to influence the behavior of the foreign partner may be seen as a positive signal within an unhealthy and unconstructive working environment that can reduce friction, anger, and dysfunctional behavior in the relationship. It is thus possible to hypothesize that:

**Hypothesis 1a**: The use of non-coercive power is positively related to functional conflict in the relationship.

**Hypothesis 1b**: The use of non-coercive power is negatively related to dysfunctional conflict in the relationship.

In contrast, coercive power, viewed as the reverse of reward power, refers to one party's ability to threaten its partner with negative, undesirable consequences or punishments when the partner is not willing to comply (e.g. Brown et al., 1983). In other words, it has the potential to threaten and harm the partner through the use of sanctions. It stems from one party's position to potentially penalize the other party with undesirable consequences (e.g., withdrawal of rewards like exclusive rights and foreign market information, termination of contract, undesirable work assignments); imposition of such penalties might take place when the counterpart deviates from its relationship tasks (e.g., Brown et al., 1983; Raven 2008). The imposition of sanctions (e.g., payment delays, limiting provision of local market information, and order reduction by the importer, and withholding unique product information, lowering promotional allowances, and deviation from the terms of the agreement by the exporter) is expected not to be well received by the foreign counterpart and may in fact play a negative and destructive role for the working climate in the relationship. Likewise, withdrawal of rewards by a member is not likely to go down well by the other party who in return may become non-responsive in the interactions or even react and challenge the partnering firm. In other words, the use of coercion or withdrawal of rewards is

likely to increase tension and result in dysfunctional behavior in the relationship (e.g., Tikoo, 2005; Zhuang et al., 2010). Further, the imposition of sanctions may create a negative climate in the relationship where the parties are not motivated to interact productively with each other and work closely together with the view to discussing their disagreements and resolving their conflict in a way that can strengthen interactions and the future of their trading association (Coughlan et al., 2006). Based on this thinking, we hypothesize that:

**Hypothesis 2a**: The use of coercive power is negatively related to functional conflict in the relationship.

**Hypothesis 2b**: The use of coercive power is positively related to dysfunctional conflict in the relationship.

### 2.3 Functional and dysfunctional conflict and performance outcomes

Functional conflict refers to differences in opinions regarding tasks, procedures, strategy, business ideas, and other-business related issues that tend to be openly discussed and resolved and facilitate the strengthening of the relationship (Skarmeas, 2006). Such conflict is regarded as healthy due to the fact that the outcome that results from "the open-minded contesting of the diverse perspectives is generally superior to the individual perspectives themselves" (Skarmeas, 2006, p. 568). Although disagreements between buyers and sellers are typical in work processes (Frazier, 1999), they can rejuvenate, develop, and strengthen a relationship if disagreements are handled in proper and productive ways of thinking. Functional conflict might serve to help partnering firms to work harder and smarter with favorable outcomes for their performance (Jehn & Chatman, 2000; Jehn & Mannix, 2001). Performance is defined as each partnering firm’s market and financial outcomes attained through their business relationship. In trading associations marked by the presence of functional conflict, the parties tend to be more willing to look at and accept new ideas and views and be receptive to changes suggested by the counterpart if these are beneficial for the

future of the relationship (Menon et al., 1996). In addition, the relationship marketing literature suggests that buyer–seller interactions are performed via social exchanges between employees of the partnering organizations who coordinate the flow of assets, skills, and information as they collaborate in their daily operations (Katsikeas et al., 2009). High levels of functional conflict may stimulate specific structuring ties that can improve the pattern and quality of interactions between the network of employees who engage and coordinate activities in the relationship. Structuring ties are employee connection points within the importing and exporting partners. Functional conflict is likely to strengthen the structure of employee ties by improving the quality of connections and intensity of interactions between the partnering firms (McEvily, Perrone, & Zaheer, 2003). Thus, it is hypothesized that:

**Hypothesis 3**: Functional conflict is positively related to performance in the relationship.

In contrast, dysfunctional conflict concerns strong disagreements, underlying emotions, and actions (e.g., attacks, clashes, sarcasm) taken by one or both parties that lead to frustration and hostility in the relationship. The injection of such negative feelings, attitudes, and behaviors in the relationship can create stagnation in the interactions between the exchange partners. Such an exchange climate may pull apart and even disintegrate the relationship especially if such a situation persists and governs thinking between the parties for some time (e.g., Skarmeas, 2006). It is understandable that firms involved in relationships characterized by friction, anger, and hostile feelings are likely not to exhibit willingness to examine new ideas, make changes, and accommodate their partner's suggestions and behavior. Under these circumstances the parties may not have the volition to make special efforts to deal productively with difficulties in and challenges facing the relationship. Dysfunctional conflict cannot serve as a basis for stimulating people in the exporting and importing firms to work harder and smarter (Webb & Hogan, 2002). On the contrary, such

conflict poses serious problems for the achievement of relationship goals and may even push the parties to develop negative feelings concerning the future of their business association.

Furthermore, dysfunctional conflict is unable to motivate people in the partnering organizations to be proactive in their interactions, as proactivity here requires mobilizing behaviors by the two parties that would enable them to contribute their skills and resources to coordinate and deploy them in joint activities that are conducive to the attainment of each party's goals in the relationship (McEvilly et al., 2003). The inability of dysfunctional conflict to stimulate mobilizing behaviors is likely not to activate the exchange parties to make productive efforts, integrate their skills and resources, share valuable information, and make equitable and fair contributions to the establishment and smooth functioning of relational exchange (Katsikeas et al., 2009). The lack of rich connections between members of the two sides as well as limited mobilizing forces that mark relationships governed by dysfunctional conflict may undermine positive relationship outcomes and result in poor performance for each party in the trading association. Hence, it is possible to expect that:

**Hypothesis 4**: Dysfunctional conflict is negatively related to performance in the relationship.

**2.4 The importance of problem-solving conflict resolution strategy**

When conflict arises in the relationship, a particularly important task for the exchange parties is how to manage conflict effectively. As partnering firms often face restructuring challenges, workforce diversity pressures, and communication problems across cross-cultural exchange teams, which may nurture conflict, effective conflict management is critical for the survival and long-term viability of cross-border trading associations (e.g., Gadde, Hakansson, & Persson, 2010; Ma, 2007; Song et al., 2006). The conflict-handling literature (e.g. Koza & Dant, 2007; Ma, 2007) distinguishes between distributive conflict resolution, which is based on a “win-lose” approach to solving conflict by maximizing own gains while minimizing losses for the partner, and integrative conflict resolution, which involves a “win-win”

approach with both parties seeking common interests and mutual benefits through open information exchange and joint decision-making (Putnam, 1990).

Notwithstanding different strategies of conflict resolution that can be identified in the literature (e.g., Koza & Dant, 2007; Song et al., 2006), for the purpose of this study we focus on the deployment of problem-solving strategy because of its integrative approach to and collaborative style in conflict solving. Thus, for present purposes, problem solving conflict resolution concerns the parties' integrative behavior when assertiveness and cooperativeness between them is high in efforts to deal with highly complex, conflictual issues (Rahim, Antonini, & Psenicks, 2001). The focus of this research on exporter–importer dyads is in consonance with the use of this conflict resolution strategy, as it enables the parties to take account of each other's ways of working, requirements, and goals in attempts to resolve disagreements and conflictual behaviors (e.g., Koza and Dant, 2007). This is particularly important for cross-border relationships that are typically characterized by geographical separation and cultural distance between suppliers and organizational customers, which may cause communication difficulties, misunderstanding, and conflictual tendencies in international exchange partnerships (e.g., Bello et al., 2010).

We argue that the performance impact of conflict in the relationship is influenced by the extent to which the parties resort to problem-solving conflict resolution. When conflict resolution efforts are essentially governed by this mutual, "win-win" strategy, the occurrence of constructive disagreements allows partnering firms to function smoothly and attain strategic goals in the relationship. Due in part to its inherently positive elements, high functional conflict under such conflict resolution conditions is likely to serve as a platform on which firms can build and strengthen interactions. Nonetheless, problem-solving collaboration for dealing with conflict requires resources in terms of information, time, and energy. Drawing from the inter-organizational exchange literature (e.g., Katsikeas et al.,

2009; Wicks, Berman, & Jones, 1999), we posit that when valuable, non-substitutable resources are exchanged, performance outcomes which result from functional conflict in relationships governed by problem-solving conflict resolution are likely to improve for two reasons. First, problem-solving conflict resolution strategies strengthen the ability of functional conflict to lower transaction costs because, with thinking of collaboration and mutuality in addressing disagreements, the potential to gain more increases and each party can lose so much to the extent that likely benefits from exploitation decrease relative to the likely benefits from ongoing collaboration with a valuable, not-easily-replaceable partner (c.f., Katsikeas et al., 2009; Kumar, Sheer, & Steenkamp, 1998). Second, this problem-solving approach amplifies functional conflict's aptitude to elevate transaction value, because efforts to coordinate valuable resources and deploy them productively in dealing with tension and disagreements that have the potential to be constructively resolved can boost payoffs in the relationship (c.f., Wicks et al., 1999). It is therefore expected that:

**Hypothesis 5a**: Problem-solving conflict resolution positively impacts the functional conflict–performance link, thus boosting the positive performance effects of functional conflict.

However, we suggest that, in the presence of dysfunctional tension and disagreements in the interactions between the parties, efforts to fully address such conflict in a productive way for the relationship might be particularly challenging even if the parties can recognize the benign role of collaborative, "win-win" style of a problem-solving approach to conflict resolution. Negative and destructive elements inherent in such conflict inhibit partnering firms to function smoothly and achieve strategic goals in the business relationship. Nonetheless, the communication and discussion of problems involved in problem-solving conflict resolution may mitigate the impact of destructive elements associated with dysfunctional conflict. In other words, such a conflict resolution strategy is likely to play an instrumental role that can soften strong conflictual behavior and somehow improve essentially unproductive interactions between the two parties. Based on relational exchange

reasoning (e.g., Bello et al., 2010; Wicks et al., 1999), we argue that when the parties have made commitments to high-value, irreplaceable resource exchanges, performance outcomes from dysfunctional conflict in trading associations marked by a problem-solving conflict resolution strategy are likely to weaken. This problem-solving strategy has the capacity to lower dysfunctional conflict's tendency to reduce transaction value. Attempts to use valuable resources in productively dealing with conflict can be seen by the partner as accommodating and useful, potentially easing the pressures of disagreements and tension in the relationship and tempering their inherently damaging effects on relationship outcomes (c.f., Wicks et al., 1999). Furthermore, because of its emphasis on collaboration, open discussion, and information sharing in addressing conflict, problem-solving conflict resolution strategies are expected to reduce the ability of dysfunctional conflict to increase transaction costs in the interactions between the two parties (c.f., Kumar et al., 1998). Thus, we can advance that:

**Hypothesis 5b**: Problem-solving conflict resolution adversely impacts the dysfunctional conflict–performance link, thus lowering the negative performance effects of dysfunctional conflict.

### 2.5 Power distance as a culture-specific factor in exporter–importer relationships

In the context of firms' international business, different aspects of cross-national distance (e.g., economic, financial, political, administrative) have been examined in the literature, and cultural distance is an issue that has received particular attention (Berry, Guillen & Zhou, 2010). As our study's focus is on relationships between exchange partners based in different countries, account should be taken of cultural distance that refers to differences in attitudes toward authority, trust, individuality, and importance of work and family (Berry et al., 2010). To consider the relevance of such distance within the context of our study, we draw from Hofstede's (2001) national culture framework and focus specifically on power distance that is a distinct dimension of national culture. In cross-border relationships, power distance concerns the degree to which the less powerful people in

(exporting and importing) firms within a specific country expect and accept that power is distributed unequally (c.f., Hofstede, 2001). This dimension indicates that senior managers in exporting and importing firms tend to make decisions without asking the opinions of people at lower organizational positions and avoid interactions with and delegation of tasks to lower level employees for making decisions concerning the relationship.

We contend that the effects of functional and dysfunctional conflict on performance are conditioned by the degree of power distance within the firm and its operational environment. Power distance entails decision making within a firm that is mainly driven by the active engagement of senior executives who guide employees as regards operational aspects and everyday exchanges and interactions with the international trading partner. Greater centralization, avoidance of social interaction, and little employee involvement in decision making within a firm may discourage contact employees to take initiatives and accommodating actions that could benefit the relationship and limit their engagement and freedom in dealings with the foreign trading firm (c.f., Bello et al., 2010). Such a situation is likely to weaken the impact of the positive elements of functional conflict on performance outcomes. In contrast, greater participation of contact employees in decisions concerning the relationship with the foreign exchange partner may not only provide them with an opportunity to more productively utilize their skills and experience, but also motivate them to engage in regular interactions and closer collaboration with the partner, which can boost the beneficial effects of functional conflict. However, the presence of high power distance and the resultant limited involvement and freedom of contact employees in relationship decisions is likely to introduce rigidity and institutionalization in relationship interactions, enhancing the negative effect of dysfunctional conflict on relationship outcomes. Contact employees may be frightened by high managerial involvement and centralization in decision making and

thus be reluctant to take initiatives in facilitating collaboration and developing closer relational exchanges (c.f., Hofstede, 2001). Thus, we hypothesize that:

**Hypothesis 6a**: Power distance negatively impacts the functional conflict–performance link, thus decreasing the positive performance effects of functional conflict.

**Hypothesis 6b**: Power distance positively impacts the dysfunctional conflict–performance link, thus increasing the negative performance effects of dysfunctional conflict.

## 3. Methods

### 3.1 Research context and design

We tested the research hypotheses using survey data of both Slovene exporters and their corresponding distributors overseas. Distributors are an attractive foreign market entry mode for exporting firms, due in part to the relatively low commitments of resources and capabilities that exporting firms need to make in attempts to establish and develop overseas market operations (e.g., Katsikeas et al., 2009; Skarmeas, Zeriti, & Baltas, 2016). The use of dyadic data is a particular feature of our study as it enables the study of both sides of the international exchange partnership, notwithstanding the difficulties involved in collecting such data in cross-border buyer–seller relationships. The composition of our two samples includes low- and high-tech companies in terms of the products manufactured by exporters and those that distributed by distributors in their local market with the goal to enhance the generalizability of the study results. Concerning the locations of foreign distributors covered in the study, we focused on the E.U. (particularly Germany, Croatia, Austria, France and Italy) and ex-Yugoslavian markets because they are the primary export market regions for Slovene firms (SURS, 2015). Slovenia is a typical Central European country and one of the smaller E.U. markets that is particularly export oriented with most of its trading partners being other members of the E.U.

The unit of analysis is the specific business relationship between the exporter and importer. Since a company can export more than one product or product line to more than

one market or market segment, when answering the questions, we asked survey participants to bear in mind their main product or product line that they exported. This decision was made as prior research (e.g. Katsikeas et al., 2000) suggests that providing responses which reflect an average to cover all products or all exporter–import relationships may introduce considerable noise and produce misleading results. Furthermore, we placed emphasis on the detection and choice of knowledgeable individuals within exporting and importing companies to target for this research. Our pre-study qualitative fieldwork suggested that usually there is only one manager (e.g. export/marketing manager on the supplier's side, subsidiary or import manager on the customer's side) who has the responsibility for dealing with the foreign partner and the management of the specific cross-border relationship. This individual was the target for us in our collection efforts of exporter and importer dyadic data.

**3.2 Field interviews and questionnaire development**

We contacted exploratory field interviews with six managers in exporting firms and four managers in import distributor companies prior to the execution of the exporter and importer surveys. All managers perceived the existence of conflict between the parties as having adverse consequences for the working relationship. However, some managers suggested that they sometimes have disagreements with their overseas counterparts, but the two parties make efforts to work together with the view to resolving such potentially negative situations. One managers also noted that "we do not have conflict with our foreign distributor; sometimes we just have communication misunderstandings." In addition to recognizing the different types of conflict between the exchange partners, the field interviews helped us verify the relevance of the study constructs and the plausibility of the proposed conceptual model. In addition, an attempt was made in these interviews to discuss with managers the measures of the study constructs and ensure that these were developed and adapted in a way that were meaningful to participants in the study.

We drafted the survey questionnaire following a systematic literature review and interviews with managers. Data were gathered by sending out two sets of questionnaires: one questionnaire that assessed the exporter–importer relationship from the standpoint of the Slovene exporter; and another that assessed this relationship from the standpoint of the foreign distributor. As the fieldwork interviews suggested that exporters and importers typically use English as the language of their business interactions and communications, the questionnaire was developed in English for collecting the data for this study. However, in some cases Slovene managers or their corresponding foreign distributors were not proficient in English and their interactions were based in their local language. In those cases, the questionnaire was translated in the relevant local language and then was back-translated into English in an effort to ensure face validity and enhance the response rate and number of the dyads in our study. We used three academicians who had research interests in and were familiar with research in inter-firm relationships and international marketing to assess the face and content validity of the questionnaire and compare the two versions. Several changes were made to the exporter questionnaire and few minor changes made to the importer one. The questionnaire was then pre-tested on samples of 12 Slovene exporters and 10 foreign distributors. As a result, the survey questionnaire and completion time were shortened, while some language modifications enhanced flow and comprehension of all the questions used.

### 3.3 Construct operationalization

Multi-item scales were used to operationalize all study constructs. In addition, five-point relative response formats were used in all cases. The questions were the same for both sides of the international exchange dyad, as the study examines exporter and importer perceptions of power bases, functional and dysfunctional conflict, problem-solving conflict resolution, power distance, and performance in the relationship. The measurement scales are presented in Appendix 1. Next we describe the measures for our constructs.

**Power sources**. For present purposes, following practice established in prior research on channels (e.g. Gaski & Nevin, 1985; Lusch & Brown, 1986; Meehan & Wright, 2012), we distinguish between coercive and non-coercive sources of power from the perspectives of both exporters and importers. More specifically, we used six items to measure non-coercive power and three items to assess coercive power. The scale items for coercive and non-coercive power sources are based in previous studies (e.g. Gaski & Nevin, 1985; Katsikeas et al., 2000; Swasy, 1979) and adapted in pre-study interviews with managers in exporting and importing firms. We used a five-point Likert rating scale, anchored by (1) "strongly disagree" and (5) "strongly agree", to tap participant managers' responses to individual questions.

**Conflict**. Consistent with dominant thinking among more recent studies (e.g. Geyskens et al., 1999; Menon et al., 1996; Skarmeas, 2006), we pursue the distinction between functional and dysfunctional conflict as the aim was to adopt a broadened view of conflict that encompasses both aspects of the concept. With this in mind, we operationalized functional conflict using four items that were adapted from Song et al. (2006). Responses to questions pertaining to functional conflict were captured using a five-point Likert scale, ranging from (1) "strongly disagree" to (5) "strongly agree". We likewise employed four items to measure dysfunctional conflict, which was grounded on Rose et al. (2007) and adapted on the basis of field interviews. A five-point rating scale, anchored by (1) "not at all" and (5) "very much", was used to tap responses concerning dysfunctional conflict.

**Performance in the relationship**. This study focuses on a firm's performance through the relationship with a specific foreign partner. Performance thus concerns each partnering firm's market and financial outcomes achieved through the specific trading association. We used seven items to assess performance of each party, borrowed from prior research (e.g., Katsikeas et al., 2009; Zou et al., 1998) and adapted in field interviews. We tapped responses on a five-point Likert scale, ranging from (1) "strongly disagree" to (5) "strongly agree".

**Problem-solving conflict resolution**. We employed four items, adapted from Koza and Dant (2007), to measure the deployment of problem solving conflict resolution strategies in the exporter–importer relationship. Our assessment of this construct focuses on distinct behavioral characteristics rather than on their consequences (Van de Vliert & Kabanoff, 1990). Responses to questions pertaining to problem solving conflict resolution were tapped on a five-point Likert scale, ranging from (1) "strongly disagree" to (5) "strongly agree".

**Power distance**. We employed five items, adapted from Yoo and Donthu (2005), to measure the cross-culturally specific traits of the respondents. The items used focus on the power distance perception of individual in the society relatively to others, as originally measured by Hofstede (2001). Respondents were assessing their power distance on a five-point Likert scale, ranging from (1) "strongly disagree" to (5) "strongly agree".

### 3.4 Data collection

The sampling frame used for this study was the list of Slovenian exporters provided in the SloExport database. This database enabled us to identify potential respondents within firms and provided objective information on company characteristics (e.g. number of employees, sales revenue in domestic and foreign markets). We focused on firms with established exporting operations and thus used two criteria to select exporters for our study: first, firms had to operate in at least three foreign markets; and, second, at least 50 percent of their sales revenue should be generated from their overseas market operations. Data were collected on the basis of using an online survey tool. Initially we sent the questionnaire to a specific manager in the exporting firm whose name and contact details were specified in the database or identified by contacting the firm via the telephone. Subsequently, supported by those managers in exporting firms who responded and completed the questionnaire, we contacted the overseas distributors of these exporters and requested their participation in this online survey. Internet surveys offer several advantages including enabling the researcher to

collect data rapidly and at a low cost, as surveys can be sent out worldwide and responses received quickly (Craig & Douglas, 2005). There is also no interviewer bias and limited potential to introduce social desirability biasing influences on the results (Malhotra, 2002).

We randomly selected 1000 companies from the database and contacted them via email to check their contact details, assess their eligibility for the study, and where necessary identify an appropriate informant. A total of 264 emails were returned as undelivered. Of the 736 firms remaining, 291 companies were ineligible for the study. In their replies to our initial email, they replied to indicate that they do not currently export, had been exporting for less than three years and/or to fewer than three foreign markets, their export sales accounted for less than 50 percent of their total sales, did not operate through foreign distributors, or had a policy of not disclosing any company information. This process resulted in a total of 445 companies that were eligible and expressed willingness to participate in the study. We emailed the managers identified in these companies as willing and able to participate and kindly asked them to complete the survey questionnaire. We paid particular attention to emphasizing the importance of this project, their role in contributing to the study's success, and the anonymity of responses. After three waves of questionnaires and a series of telephone calls over a period of three months, 184 usable exporter questionnaires were gathered for a response rate of 41 percent. Based on the support of this group of exporters, we contacted their overseas distributors and asked them to complete the questionnaire with regard to the specific foreign supplier relationship. Using three questionnaire waves and telephone calls to managers in these distributor companies overseas over a period of nearly three months, we managed to receive 105 replies from importers with fully usable questionnaires that represents a response rate of 57 percent. Hence, our samples of exporters and importers represent 105 relationship pairs and these data are used for analysis purposes in this study.

**3.5 Informant quality and sample description**

At the end of the exporter and importer questionnaires we had several questions that helped us assess the degree of informant knowledge about the company and its operations as well as the particular exporter–importer relationship. Informants were asked to indicate the number of years they had been with the company, the number of years at the specific job position covering international operations, and the number of years directly involved in the focal relationship with the foreign partner. In most cases, respondents in exporting and importing companies had significant experience with the company, its international operations, and the specific relationship. In those cases where respondents reported less than three years' experience in any of these three questions, the questionnaire was eliminated from the analysis and an attempt was made to identify someone else in the company with longer experience and engagement with the specific relationship to participate in the study. In this way, the procedure we followed enabled us to ensure sufficient respondent experience and knowledge of the issues investigated in each of the two samples.

In each of the two samples, the individual exporter–importer relationship was the focus of investigation. In the exporter's sample, respondents were between 27 and 67 years of age. Export managers were most commonly represented in the sample (39%), followed by CEOs (32%), marketing managers (11%), and senior sales representatives (11%). Most respondents (58%) have been working for a firm in a high-tech industry and 42% for a firm in a low-tech sector. In terms of size, 56% of the exporters had up to 250 employees, while the remainder were larger companies. On average, firms have been operating for 48 years, exporting for 24 years, and operating in 18 foreign markets. In the importer's sample, participants were between 23 and 56 years old. A total of 44% of the respondents were sales and purchasing managers, followed by CEOs (38%), marketing managers (10%), and senior purchasing officers (5%). Most respondents (58%) likewise have been working for a company in a high-tech sector, and the remainder (42%) for a firm in a low-tech industry.

Most importing firms are based in and cover Germany (17%), followed by Serbia (15%), Croatia (14%), Italy (6%), Czech Republic (6%), and Austria (5%), which corresponds to the foreign markets most frequently served by Slovenian exporters (SURS, 2016). Concerning the size of the importing firms, 67% had up to 250 employees, and the remaining 33% were larger companies. On average, the participant firms have been operating for 31 years, importing 17 years, and dealing with suppliers in 12 overseas markets.

### 3.6 Nonresponse bias

We considered the issue of possible nonresponse bias by making two checks in each of the exporter and importer groups. The first check concerned a comparison between early and late respondents using a t-test procedure. No statistically significant mean differences were found in any of the study constructs and firm characteristics (i.e. number of employees, sales volume, and relationship length) between early and late respondents for the samples of exporters and importers. The second check focused on a comparison of respondents in each of the exporter and importer samples with a random group of 39 nonresponding exporters and 32 nonresponding importers, respectively, with respect to key firm characteristics (i.e. number of employees and sales volume). We again found the absence of significant differences between the groups of respondents and non-respondents in each of the two samples. Thus, nonresponse bias does not appear to be a serious problem in this research.

## 4. Analysis and results

### 4.1 Validation of measures

We followed Nunnally and Bernstein's (1994) procedure for assessing and validating the measures of our study constructs. First, we performed exploratory factor analysis within the exporter and importer samples for all the constructs. The aim was to identify and remove problematic items, these being items that had low factor loadings or exhibited high cross

loadings. Second, we performed reliability analyses for our measurement scales, which indicated that the Cronbach's alpha values of the study's constructs range between .66 and .87. Most measures show adequate reliability levels, but some scales in the importer sample exhibit a Cronbach's alpha score slightly lower than .70, the recommended threshold.

We assessed the validity of our measures using confirmatory factor analysis (see Table 1 for construct measurement models). Due to the relatively small sample sizes as a result of our focus on dyadic exporter–importer data, we ran two measurement models in each of the exporter and importer groups. As shown in Table 1, in each group one measurement model contained the constructs non-coercive power, coercive power, functional conflict, and dysfunctional conflict, and another measurement model included the constructs problem solving conflict resolution and performance outcomes from the relationship. In running the models, we used the maximum likelihood estimation procedure in AMOS. Convergent validity, which concerns the "extent to which indicators of a specific construct converge or share a high proportion of variance in common" (Hair et al., 2010, p. 689), is achieved if the overall goodness-of-fit indices demonstrate a good fit to the data and standardized factor loadings are high and significant (Anderson & Gerbing, 1988). Our results provide evidence of good fit of the measurement models to the data; notably, in all cases, standardized loadings are high (i.e., $\geq .50$) and significant.

**…Insert Table 1 here…**

Discriminant validity, which concerns the extent to which a measure is distinct from all other measures in the study, was assessed by applying two different procedures in each of the exporter and importer samples. First, we followed the procedure of Anderson and Gerbing (1988) and conducted chi-square difference tests in which the correlation between all pairs of construct measures is once estimated freely and then fixed to one. In all pairs, the chi-square difference between the constrained and unconstraint models was greater than 3.84,

thus exhibiting a significant chi-square difference test statistic. Second, we followed Fornell and Larcker's (1981) more stringent approach. In all cases the correlation between two construct measures was lower than the square root of the average variance extracted for each of these measures. In sum, the two methods indicate that our study measures exhibit discriminant validity. Table 2 presents correlations, reliability estimates, and descriptive statistics for the study constructs.

**…Insert Table 2 here…**

### 4.2 Tests of hypotheses

We employed regression analysis to test our research hypotheses. Three multiple regression models were estimated using ordinary least squares. As shown in Table 3, the results suggest that non-coercive power is not significantly related to functional conflict in the exporter ($b = -.04$, $t = -.28$, $p > .10$) and importer ($b = -.03$, $t = -.30$, $p > .10$) samples, thus lending no support to Hypothesis 1a. Additionally, coercive power is negatively related to functional conflict only in the exporter sample ($b = -.28$, $t = -2.48$, $p < .05$), as per Hypothesis 2a, but there is no significant link in the importer sample ($b = -.03$, $t = -.30$, $p > .10$). Moreover, in support of Hypothesis 2b, coercive power has a negative effect on dysfunctional conflict in both the exporter ($b = .31$, $t = 4.23$, $p < .01$) and importer ($b = .33$, $t = 3.66$, $p < .01$) samples. We also find that non-coercive power has a negative effect on dysfunctional conflict in the exporter sample ($b = -.37$, $t = -4.39$, $p < .01$), in concert with Hypothesis 1b, but no significant relationship was found in the importer sample ($b = -.14$, $t = -1.20$, $p > .10$).

Concerning the connections between the two different types of conflict and performance, the results suggest that the presence of functional conflict in the cross-border relationship positively affects performance in the importer sample ($b = .22$, $t = 2.70$, $p < .01$), in support of Hypothesis 3. However, this hypothesis is not validated in the exporter sample,

as the results show that functional conflict has no direct performance effect (b = -.06, t = -.87, p > .10). Further, Hypothesis 4, suggesting that dysfunctional conflict is negatively related to performance, is not validated in our samples of exporter (b = .07, t = .07, p > .10) and importers (b = .03, t = .37, p > .10). The results also indicate that problem-solving conflict resolution strategy plays an important moderating role in the relationships of functional and dysfunctional conflict with performance outcomes. Specifically, we find that problem-solving conflict resolution positively affects the functional conflict–performance link in the exporter sample (b = .31, t = 2.79, p < .05), in line with Hypothesis 5a, but negatively influences this link in the importer sample (b = -.33, t = -2.08, p < .05), which refutes Hypothesis 5a. In line with Hypothesis 5b, the results suggest problem-solving conflict resolution negatively affects the link between dysfunctional conflict and performance outcomes in both the exporter (b = -.33, t = -2.22, p < .05) and importer (b = -.36, t = -2.05, p < .05) samples. In addition, the results indicate that power distance boosts the negative effects of dysfunctional conflict on performance in the exporter (b = -.46, t = -3.71, p < .01) and importer (b = -.11, t = -1.69, p < .10) samples, in support of Hypothesis 6b. However, Hypothesis 6a, suggesting power distance negatively impacts the functional conflict–performance link, is not validated across the exporter (b = .12, t = 1.18, p > .10) and importer (b = -.12, t = -.85, p > .10) samples.

**…Insert Table 3 here…**

### 4.3 Additional analyses

As we collected the data at one point in time and on the basis of a single informant's self-reporting, common method variance may lead to inflated estimates of the hypothesized relationships. In the data collection process, we used procedures recommended by Podsakoff and associates (2003) in an effort to limit the possibility of such bias including developing clear scale items and instructions, promising response anonymity and confidentiality, assuring potential respondents that there were no right or wrong answers, and structuring

questionnaire questions under general topics rather than specific constructs. Further, we assessed empirically the presence of common method bias in two ways. First, we employed Harman's one-factor test (Podsakoff & Organ, 1986). Concerning the exporters' sample, the results revealed seven factors with eigenvalues greater than 1.0, as expected, but no factor accounted for the bulk of the total variance. In fact, factor 1 explained 18.88% of the variance. In a similar vein, in the importers' sample Factor 1 accounted only for 13.99% of the variance. Second, we employed the marker variable test, which is widely used to testing for possible biasing effects of common method variance on the empirical results (e.g., Zeugner-Roth, Zabkar, & Diamantopoulos, 2016). In each of the two samples, we adjusted the correlations between constructs using the second smallest correlation in the correlation matrix. In both the exporter and importer samples, we identified no major differences in the adjusted correlations from the initial correlation coefficients and no significant correlation was reduced to non-significant levels (e.g., Malhotra, Kim, & Patil, 2006). In sum, common method bias does not appear to influence the results in the exporter and importer samples.

In addition, we compared exporters and their corresponding foreign customers and revealed significant differences with regard to some of the study constructs. Exporters possessed significantly higher levels of coercive power than importers ($t = 7.64$, $p < .01$), but importers were found to possess higher levels of non-coercive power ($t = -5.77$, $p < .01$) than exporters. Exporters also saw significantly higher levels of dysfunctional conflict in the relationship than their importing partners ($t = 7.35$, $p < .01$). No significant differences were detected between exporters and importers as regards the levels of functional conflict, problem solving, power distance, and performance in the relationship.[3]

[3] Differences in perceptions of coercive and non-coercive power in the exporter and importer dyads had no significant influences on functional and dysfunctional conflict in each of the two samples. Likewise, differences in the levels of functional and dysfunctional conflict between the two partners had no discerning effect on performance in the relationship in both samples.

To deepen understanding of our exporter and importer dyadic performance data, we examined response differences between the two partnering firms in all pairs of performance items in our scale. Interestingly, in the bulk of our sample exporter–importer dyads, we found no big gaps between the two partners as regards the performance outcomes achieved by each party in the relationship. The differences between exporters and importers were $\leq 1$ for over 90 percent of the cases. This suggests that, in the vast majority of dyads, the parties perceive that each makes equitable gains from the relationship, which is important to the development and continuance of their business exchanges in the long-term (e.g., Palmatier et al., 2013).

## 5. Discussion

### 5.1 Theoretical implications

Much of the research on conflict focuses on the negative connotations of conflict, while scant attention is given to the importance of functional conflict in cross-border trading associations (e.g., Skarmeas, 2006). By viewing conflict as essentially being dysfunctional and paying no consideration to its functionality, the inter-firm relationship literature offers a limited picture of this phenomenon. As opposed to the vast part of extant research, we distinguish between functional and dysfunctional conflict and offer an empirical explanation regarding how the two forms of conflict are linked to performance and the extent to which these are affected by the use of coercive and non-coercive power in exporter–importer relationships. Importantly, this research differs from previous studies on cross-cultural buyer–seller relations by examining drivers and performance consequences of functional and dysfunctional conflict in dyadic relationships of exporters and importers, thus taking account of both sides of international exchanges.

Our study suggests that the use of coercive power appears to play a more important role in influencing conflict than the exercise of non-coercive power. We demonstrate that use

of coercion increases dysfunctional conflict, which is consistent with most research on conflict that is traditionally considered to be bad for relationship building (e.g., Rawwas et al. 1997; Zhuang et al. 2010). We add to this stream of research on conflict by empirically showing that the use of coercion results in lower levels of functional conflict (among exporters), which is essentially seen as a productive means of revitalizing and strengthening relational exchanges. By contrast, the evidence cited in this study reveals that the use of non-coercive power plays no role in influencing the presence of functional conflict in the relationship. Nonetheless, the use of rewards were found to play an instrumental role in reducing dysfunctional conflict, though this link does not reach significance in the importer group. This result is particularly interesting and corresponds to empirical evidence among international marketing alliances that highlights the positive role that a firm's accommodation of the partner's deviation from accomplishing its alliance tasks plays in influencing alliance performance (Bello et al., 2010). It is also consistent with previous studies (e.g., Lusch, 1976; Rawwas et al., 1997) pinpointing the benefits that underpin informational, referent, and legitimate (non-coercive) sources of power and their potential to ease dysfunctional conflict.

Exporters and importers are likely to have a better understanding of each other, when they are involved in a competitive relationship characterized by more frequent (functional and dysfunctional) conflict than in a purely cooperative relationship (Forker & Stannack, 2000). This research shows that dysfunctional conflict in cross-border relationships seems not to affect negatively each party's performance in the relationship, which is not in line with what one would expect in practice. Likewise, functional conflict between exporters and exporters does not appear to produce positive performance results among exporters. Only among foreign distributors functional conflict can yield healthy performance outcomes as the conflict literature suggests. This absence of direct performance effects of dysfunctional conflict among both exporters and importers, which is also the case for functional conflict in

the exporter group, may imply that in relationships marked by geographical and cultural separation conflictual interactions between the parties appear unable to have unequivocal performance implications. Does this mean that in cross-border exchanges partners move on with current business and the state of affairs and thus live with conflict of one kind or another, or do the performance effects of functional and dysfunctional conflict take time to unfold? This is an issue that future empirical inquiry may find it fruitful to investigate.

Mixed findings concerning the relationship of conflict with performance prompted us to investigate potentially important factors moderating this link. We contribute to this stream of research not only by recognizing the presence of functional and dysfunctional conflict in cross-border exchanges, but also by identifying conditions pertaining to problem solving conflict resolution and power distance under which the relationships of the two types of conflict with performance vary. Specifically, power distance was found to be influential in enhancing the inherently negative impact of dysfunctional conflict on performance among both exporters and importers. Moreover, when problem-solving conflict resolution strategy is deployed, functional conflict enhances while dysfunctional conflict reduces performance among exporters. However, in the group of importers, we encountered surprising findings: when problem solving conflict resolution strategy is used, both functional conflict and dysfunctional conflict appear to reduce importing firms' performance. Pragmatically, this implies that this approach to conflict resolution may not be an appropriate mechanism to implement as it seems to be unable to materialize among foreign distributors the inherently beneficial elements of functional conflict for relationship functioning and performance. In an effort to explain this finding, we conducted post hoc interviews with managers in three importing firms. Managers perceived that efforts to discuss and resolve even not serious problems arising in relations with their foreign suppliers may not necessarily improve work processes but might hinder productivity and introduce delays that can harm performance.

However, due to the surprising nature of this finding, additional research is needed especially among importers to investigate the role of problem-solving conflict resolution in conditioning the functional conflict–performance link before firm conclusions can be drawn.

Broadly, the presence of differences in exporter and importer perceptions with regard to some key study constructs may in part explain the surprising and inconsistent findings between the two groups. The existence of such differences between the trading partners are to a large extent justifiable because they are based in different market environments. They also are different firms with different objectives and priorities, and face dissimilar risks in their markets and operations. For instance, many import distributors may seek multiple foreign suppliers, product diversity, and supply flexibility. Thus, suppliers might be more vulnerable, be exposed to a certain level of uncertainty, and seek more stable, on-going relationships to reduce their risk exposure (Samiee & Walters, 2006). Thus, it is not surprising that suppliers in our sample were much more sensitive to conflict distortions compared to buyers. Further, the dependence structure in the dyad in terms of value received from and irreplaceability of the partner might be another source for explaining the different findings across the two groups (see Scheer, Mia, & Garrett, 2010). It would be enlightening if future research considers the role of dependence in influencing drivers and performance outcomes of functional and dysfunctional conflict in cross-border exchange relations.

**5.2 Managerial implications**

In essence, sound cross-border business exchanges are marked by high degree of joint planning and performance reviews, customized product exchanges, not-very-intense conflicting situations, and frequent communication (Paun, 1997), even though international buyer–seller relations are underpinned by psychic distance and the exercise of power and each party's power base. Managers in exporting and importing firms should appreciate the non-productive role that use of punishments can play in relational exchanges as it is

conducive to enhancing dysfunctional conflict between the parties. Furthermore, international relationship managers, especially those in exporting companies, may find advantage in the use of rewards as an effective means of reducing such destructive conflict with their foreign trading counterparts. It is also evident from our findings that partnering firms in international exchange relationships can naturally live with tension and conflictual behavior. Therefore, managers in exporting and importing firms may need to learn how to deal and live with such conflict in the interactions with their overseas business partners. For importing companies, nonetheless, the presence of functional conflict is proven to be healthy for their performance and, thus, they may proactively pursue the engagement in constructive disagreements with their foreign supply counterpart.

We also add to the literature on conflict in cross-border business exchanges by considering the role that power distance plays in potentially affecting the relationships of functional and dysfunctional conflict with performance. This research unveils that power distance boosts the negative performance effects of dysfunctional conflict in the relationship. The implication of this finding is that relationship managers in exporting and importing companies may find it prudent to empower employees and engage them in their firm's interactions with their foreign trading partners as greater employee engagement seems to be instrumental in easing the negative performance consequences of dysfunctional conflict in the relationship. In addition, it is important that managers in both exporting and importing firms may usefully deploy a problem-solving conflict resolution approach to easing the adverse consequences of dysfunctional conflict for each partnering firm's performance outcomes. Likewise, managers in exporting firms can also adopt productively this conflict resolution strategy in their efforts to boost the positive performance outcomes resulting from functional conflict with their overseas partner.

## 6. Limitations of the study and future research

The findings should be interpreted in light of limitations associated with certain research design choices that we made in this study. First, our data collection took place at one point in time, which strictly prevents us from making causal inferences concerning the links investigated in the conceptual model. Ideally, testing cause-effects linkages among our model constructs requires the use of a longitudinal design that, although costly and time consuming to implement, can examine causality and more deeply investigate the complexity involved in sources of power and conflict phenomena in cross-border relationships.

Second, this research was conducted in a particular international dyadic relationship context, namely, Slovene exporters and their foreign distributors. More research is needed in other cross-border buyer–seller relationship contexts to assess the generalizability of the present empirical findings. Unfortunately, due to pragmatic reasons pertaining to sample (and sub-group) size constraints, we do not have enough observations in each sub-group of importers (e.g., Austria, Serbia) to examine it along with its corresponding sub-group in the exporter sample in terms of assessing cross-cultural measure equivalence. This is an inherent limitation of our study, due in part to difficulties in collecting dyadic data in cross-border buyer-seller relationships that would enable meaningful cross cultural measure equivalence tests. This is particularly the case when the study is conducted among exporters from a relatively small country, and as such their foreign distributor partners are likely to be based in different countries. Thus, unless we consider import trading partners of Slovenian exporters across several countries, we would have been unable to put together a sizeable sample of importers (trading with corresponding export partners). This point though is a relevant issue for exporter-importer relationship studies, thus we believe future research efforts should pay attention to the issue by investigating relationships of exporters from a specific country with their foreign distributor counterparts from another single country.

Third, we focused on a specific conflict resolution strategy and its impact on conditioning the performance implications of conflict between the parties. It may be enlightening if future investigation examines the relevance of other conflict resolution strategies (e.g., compromise, passive aggression) in potentially influencing the relationships of functional and dysfunctional conflict with performance outcomes. Further, we examine one aspect of culture, namely, power distance, in potentially conditioning the connections of different aspects of conflict with performance outcomes. Future research efforts may find advantage in considering other cultural dimensions (e.g., Hofstede, 2001) or the role of cross-national distance aspects using objective measures (see Berry et al., 2010) in possibly influencing functional and dysfunctional conflict and how such distance may impact the performance outcomes of these different types of conflictual behavior.

Finally, this study has focused on drivers and performance outcomes of functional and dysfunctional conflict in international buyer–seller dyadic relationships. Additional analysis identified the presence of some significant pair-wise differences in exporters' and importers' perceptions, but revealed no significant effects of such perceptual differences in coercive and non-coercive power on functional and dysfunctional conflict and in different types of conflict on performance, respectively, due in part to sample size constraints and limited variability in perceptual gaps in our study. A natural extension of such dyadic cross-border relationship research is to the role of perceptual differences between the international exchange parties with emphasis on their importance in influencing perceptual gaps of other relational variables including and performance outcomes of functional and dysfunctional conflict.

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**APPENDIX 1:** Measurement Scales

**Construct**

**Non-coercive power**
(Five-point Likert scale, adapted from Katsikeas et al. [2000])
1. This foreign partner assesses our specific actions in a fair way.
2. This foreign partner points out consequences of our actions not precisely considered by us.
3. The information this foreign partner provides is logical and valuable.
4. We trust this foreign partner's judgment.
5. The information provided by this foreign partner about this situation makes sense. [a]
6. We get good advice from this foreign partner. [a]

**Coercive power**
(Five-point Likert scale, adapted from Katsikeas et al. [2000] and Swasy [1979])
1. This foreign partner can harm us in some manner if we do not do as he/she suggests.
2. If we do not do as this foreign partner suggests, he/she will punish us.
3. Something bad will happen to us if we don't do as this foreign partner requests and he/she finds out.

**Functional conflict**
(Five-point Likert scale, adapted from Song [2006])
1. We know each other better because of the way conflicts are handled.
2. We are more sensitive to one another because of the way conflicts are handled.
3. We feel energized and ready to get down to work after a conflict with the foreign partner.
4. We see constructive changes occur on projects because of conflicts with the foreign partner.[a]

**Dysfunctional conflict**
(Five-point Likert scale, ranging from "not at all", to "very much", adapted from Rose et al. [2007])
1. To what extent is friction present in your relationship with this foreign partner?
2. How much anger is present in your relationship with this foreign partner?
3. To what extent are there personality clashes in your relationship with this foreign partner?
4. To what extent are there emotional tensions in your relationship with this foreign partner?

**Performance**
(Five-point scale, adapted from Katsikeas et al. [2009] and Zou et al. [1998])
*Our performance through the relationship with this foreign partner…*
1. …has been very profitable.
2. …has generated a high volume of sales.
3. …has achieved rapid growth.
4. …has significantly increased our market share.
5. …has been very satisfactory.
6. …has been very successful. [a]
7. …has fully met our expectations. [a]

**Power distance**
(Five-point scale, adapted from Yoo & Donthu [2005])
*Individuals in higher positions should …*
1. …make most decisions without consulting people in lower positions.
2. …should not ask the opinions of people in lower positions too frequently.
3. …avoid social interaction with people in lower positions.
4. …not delegate important tasks to people in lower positions.
5. …not disagree with decisions made by people in higher positions.

**Problem solving conflict resolution**
(Five-point scale, adapted from Koza & Dant [2007])
When handling conflict *with this foreign partner, we…*
1. …lean toward a direct discussion of the problem with them.
2. …try to show them the logic and benefits of our position.
3. …communicate our priorities clearly.
4. …attempt to get all our concerns and issues in the open.

[a] Item dropped in the measure purification process

**Figure 1:** The research model

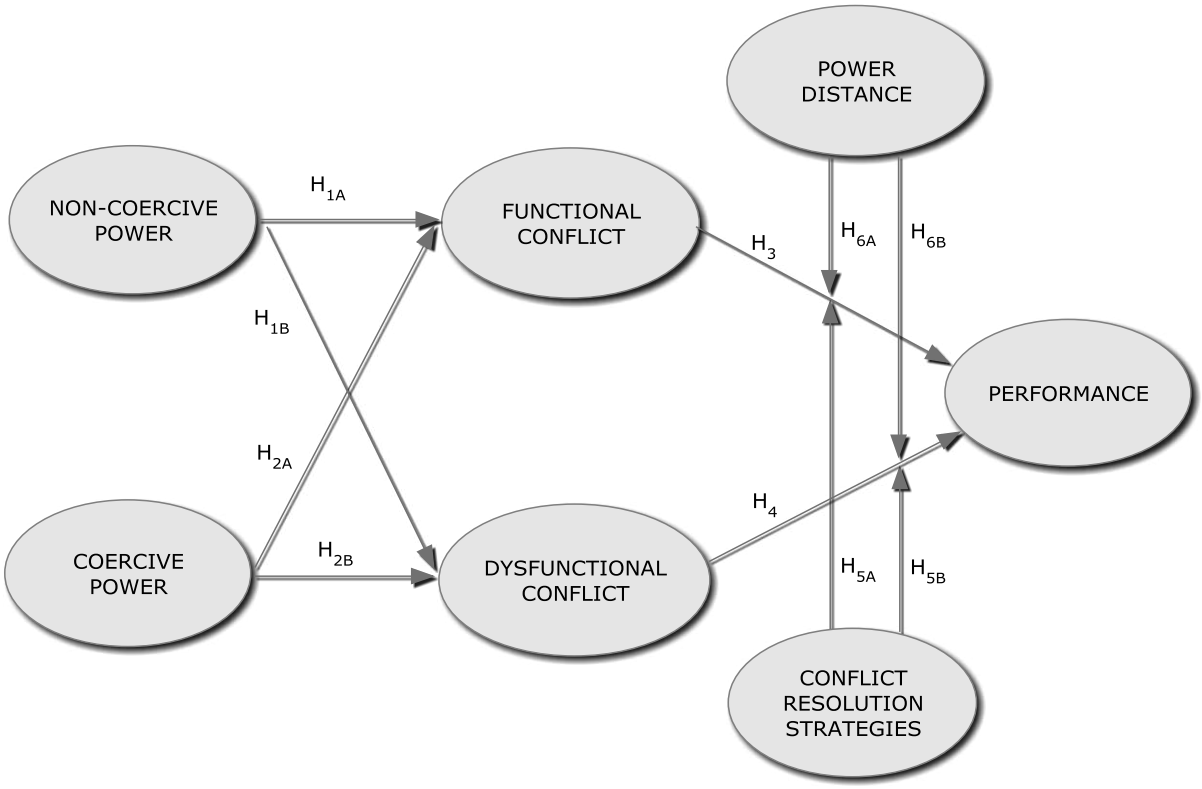

**Table 1** Construct measurement models

| EXPORTERS | | | | IMPORTERS | | | |
|---|---|---|---|---|---|---|---|
| **Measurement Model 1** | | **Measurement Model 2** | | **Measurement Model 3** | | **Measurement Model 4** | |
| Factor | Standardized loadings[a] | Factor | Standardized loadings[a] | Factor | Standardized loadings[a] | Factor | Standardized loadings[a] |
| Non-coercive power | | Performance | | Non-coercive power | | Performance | |
| NCPW1 | .85[b] | PERF1 | .76[b] | NCPW1 | .52[b] | PERF1 | .56[b] |
| NCPW2 | .67 (7.09) | PERF2 | .74 (7.63) | NCPW2 | .58 (3.46) | PERF2 | .78 (4.73) |
| NCPW3 | .77 (8.32) | PERF3 | .88 (8.95) | NCPW3 | .62 (3.54) | PERF3 | .73 (4.71) |
| NCPW4 | .67 (6.76) | PERF4 | .64 (6.48) | NCPW4 | .57 (3.44) | PERF4 | .54 (3.75) |
| | | PERF5 | .78 (8.03) | | | PERF5 | .61 (3.95) |
| Coercive power | | | | Coercive power | | | |
| CPW1 | .50[b] | Problem-solving | | CPW1 | .69[b] | Problem-solving | |
| CPW2 | .90 (4.72) | PS1 | .64[b] | CPW2 | .96 (8.20) | PS1 | .51[b] |
| CPW3 | .68 (4.54) | PS2 | .52 (4.35) | CPW3 | .84 (8.05) | PS2 | .65 (2.39) |
| | | PS3 | .91 (6.01) | | | PS3 | .87 (2.38) |
| Functional conflict | | PS4 | .69 (5.73) | Functional conflict | | PS4 | .61 (2.36) |
| FC1 | .70[b] | | | FC1 | .52[b] | | |
| FC2 | .98 (5.99) | Power distance | | FC2 | .79 (3.59) | Power distance | |
| FC3 | .53 (5.34) | PD1 | .64[b] | FC3 | .61 (3.88) | PD1 | .59[b] |
| | | PD2 | .67 (5.10) | | | PD2 | .64 (4.44) |
| Dysfunctional conflict | | PD3 | .68 (5.68) | Dysfunctional conflict | | PD3 | .75 (4.70) |
| DFC1 | .81[b] | PD4 | .64 (4.95) | DFC1 | .60[b] | PD4 | .53 (3.94) |
| DFC2 | .89 (10.24) | PD5 | .59 (3.98) | DFC2 | .79 (5.96) | PD5 | .55 (4.02) |
| DFC3 | .71 (7.65) | | | DFC3 | .78 (5.90) | | |
| DFC4 | .63 (5.56) | | | DFC4 | .82 (6.06) | | |
| Goodness-of-fit statistics | | Goodness-of-fit statistics | | Goodness-of-fit statistics | | Goodness-of-fit statistics | |
| $\chi^2_{(71)} = 113.91$, $p < .000$ | | $\chi^2_{(74)} = 98.68$, $p < .000$ | | $\chi^2_{(71)} = 90.02$, $p < .000$ | | $\chi^2_{(74)} = 82.94$, $p < .000$ | |
| RMR = .05 | | RMR = .04 | | RMR = .04 | | RMR = .05 | |
| CFI = .93 | | CFI = .95 | | CFI = .95 | | CFI = .97 | |
| IFI = .93 | | IFI = .95 | | IFI = .96 | | IFI = .97 | |
| RMSEA = .076 | | RMSEA = .057 | | RMSEA = .052 | | RMSEA = .035 | |

[a] t-values from the unstandardized solution are in parentheses.

[b] Fixed parameter.

**Table 2** Correlations, reliability estimates, and descriptive statistics

| **(a) EXPORTERS** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Measures** | **1** | **2** | **3** | **4** | **5** | **6** | **7** |
| 1. Non-coercive Power | 1.00 | | | | | | |
| 2. Coercive Power | .07 | 1.00 | | | | | |
| 3. Functional Conflict | -.04 | -.24 | 1.00 | | | | |
| 4. Dysfunctional Conflict | -.35* | .34* | .18 | 1.00 | | | |
| 5. Performance | .40* | -.04 | .15 | .03 | 1.00 | | |
| 6. Problem Solving | .18 | -.30* | .34* | -.08 | .36* | 1.00 | |
| 7. Power Distance | -.17 | -.01 | -.05 | .03 | -.17 | -.11 | 1.00 |
| Cronbach's Alpha | .83 | .71 | .87 | .85 | .87 | .77 | .77 |
| Mean | 3.85 | 1.68 | 3.43 | 1.69 | 3.64 | 4.01 | 2.19 |
| Standard Deviation | .61 | .72 | .84 | .61 | .59 | .53 | .69 |
| **(b) IMPORTERS** | | | | | | | |
| 1. Non-coercive Power | 1.00 | | | | | | |
| 2. Coercive Power | .08 | 1.00 | | | | | |
| 3. Functional Conflict | -.04 | -.03 | 1.00 | | | | |
| 4. Dysfunctional Conflict | -.08 | .34* | -.21 | 1.00 | | | |
| 5. Performance | .06 | .07 | .21 | .01 | 1.00 | | |
| 6. Problem Solving | .01 | -.18 | .17 | -.21 | -.01 | 1.00 | |
| 7. Power Distance | .20* | -.07 | -.08 | -.07 | .03 | .03 | 1.00 |
| Cronbach's Alpha | .67 | .87 | .67 | .84 | .70 | .66 | .73 |
| Mean | 3.38 | 2.45 | 3.35 | 2.37 | 3.57 | 4.02 | 2.22 |
| Standard Deviation | .56 | .74 | .59 | .70 | .47 | .47 | .73 |

*$p < .01$

**Table 3** Tests of hypothesized relationships

| **(a) Dependent variable: Functional conflict** | | | | |
|---|---|---|---|---|
| | **EXPORTERS** | | **IMPORTERS** | |
| **Independent variables** | **Coefficient** | **t-value** | **Coefficient** | **t-value** |
| Intercept | 4.04 | 7.49* | 3.54 | 8.74* |
| Non-coercive power | -.04 | -.28 | -.04 | -.37 |
| Coercive power | -.28 | -2.48** | -.03 | -.30 |
| | $R^2$ = .06 | | $R^2$ = .01 | |
| | Adjusted $R^2$ = .04 | | Adjusted $R^2$ = .01 | |
| | F-statistic = 3.18** | | F-statistic = .12 | |
| **(b) Dependent variable: Dysfunctional conflict** | | | | |
| Intercept | 2.62 | 7.56* | 2.04 | 4.56* |
| Non-coercive power | -.37 | -4.39* | -.14 | -1.20 |
| Coercive power | .31 | 4.23* | .33 | 3.66* |
| | $R^2$ = .26 | | $R^2$ = .13 | |
| | Adjusted $R^2$ = .24 | | Adjusted $R^2$ = .11 | |
| | F-statistic = 17.41* | | F-statistic = 7.11* | |
| **(c) Dependent variable: Performance** | | | | |
| | **EXPORTERS** | | **IMPORTERS** | |
| **Independent variables** | **Coefficient** | **t-value** | **Coefficient** | **t-value** |
| I.FIRST STEP (direct effects) | | | | |
| Intercept | 3.27 | 11.93* | 2.90 | 8.45* |
| Functional conflict | .11 | 1.49 | .18 | 2.20** |
| Dysfunctional conflict | .01 | .01 | .03 | .52 |
| | $R^2$ = .02 | | $R^2$ = .05 | |
| | Adjusted $R^2$ = .01 | | Adjusted $R^2$ = .03 | |
| | F-statistic = 1.15 | | F-statistic = 2.41*** | |
| II. SECOND STEP (with interaction effects) | | | | |
| Intercept | 2.07 | 4.36* | 3.17 | 5.81* |
| Functional conflict | -.06 | -.87 | .22 | 2.70** |
| Dysfunctional conflict | .07 | .07 | .03 | .37 |
| Problem solving | .45 | 4.23* | -.11 | -1.02 |
| Power distance | -.09 | -.11 | .01 | .10 |
| Problem solving x functional conflict | .31 | 2.79** | -.33 | -2.08** |
| Problem solving x dysfunctional conflict | -.33 | -2.22** | -.36 | -2.05** |
| Power distance x functional conflict | .12 | 1.18 | -.12 | -.85 |
| Power distance x dysfunctional conflict | -.46 | -3.71* | -.11 | -1.69*** |
| | $R^2$ = .31* | | $R^2$ = .16 | |
| | Adjusted $R^2$ = .26 | | Adjusted $R^2$ = .09 | |
| | F-statistic = 5.46* | | F-statistic = 2.15** | |

*p < .01, **p < .05, *** p < .10.