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**Managing Outsourcing to
Develop Business:
Goal Interdependence for Sharing
Effective Business Practices in China**

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MANAGING OUTSOURCING TO DEVELOP BUSINESS: GOAL INTERDEPENDENCE FOR SHARING EFFECTIVE BUSINESS PRACTICES IN CHINA

ABSTRACT

This study proposes that when partners develop cooperative relationships with each other, rather than competitive or independent ones, they are open with their ideas and resources as they believe that they both will use this exchange for mutual benefit. The structural equation analysis of findings from 95 outsourcing partnerships in China supported the reasoning that cooperative goals foster open discussion of effective practices that in turn results in business development. Results were interpreted as providing support that cooperative interdependence is a foundation for effective interaction and learning between outsourcing partners in China and perhaps in other countries as well.

Key words:

Cooperative and Competitive Goals, Inter-organizational Relationships, Outsourcing, Sharing Practices.

MANAGING OUTSOURCING TO DEVELOP BUSINESS: GOAL INTERDEPENDENCE FOR SHARING EFFECTIVE BUSINESS PRACTICES IN CHINA

Researchers are increasingly examining the practice of outsourcing value activities to specialist firms (Harland, Knight, Lamming, & Walker, 2005; Kakabadse & Kakabadse, 2002; Kremic, Tukel, & Rom, 2006). Analyses have focused whether and when outsourcing is an effective practice, especially in terms of cost reduction (Cachon & Harker, 2002; Grossman & Helpman, 2005; Görg & Hanley, 2004; Spencer, 2005; Swenson, 2007). Researchers have also explored the impact of outsourcing on national economies and international trade (Bhagwati, Panagariya, & Srinivasan, 2004; Doh, 2005; Rasheed & Gilley, 2005). Much less research has studied the management of outsourcing relationships, an oversight particularly important because of the significant obstacles to developing effective work relationships between companies and their outsourcing partners (Arnold, 2000; Belcourt, 2006; Walsh & Deery, 2006). Relatedly, there has been little research on identifying when outsourcing partners can develop their business by learning from each other (Gilley & Rasheed, 2000). This study examines the conditions and dynamics by which outsourcing partners work with each other in ways that help them learn and develop their business. In particular, it proposes that when outsourcing partners have cooperative, compared to competitive and independent, goals they share effective business practices and these discussions in turn improve business results.

This study makes several contributions to the literature. Researchers have traditionally identified central issues, such as transactional costs and opportunistic threats, that make collaboration between organizations difficult (Dahlstrom & Nygaard, 1999; Frazier, Spekman & O'Neal, 1988; Geyskens, et al, 2006; Harrigan,

1985; Pearce, 1997). This study uses the theory of cooperation and competition to document that when outsourcing partners believe their goals are positively related, they discuss their effective practices openly with each other so that they learn from each other and improve their business performance. It extends previous research on cooperation and competition, mostly conducted on the team and interpersonal levels with experimental methods, for understanding relationships and interaction between organizations (Deutsch, 1973; Johnson & Johnson, 2005; Tjosvold, 1998). Findings reaffirm the traditional idea that relationships are very critical for doing business in China by showing that cooperative relationships underline the open discussions that can improve business performance.

THEORETICAL BACKGROUND

Outsourcing for Learning Effective Practices

Critics have charged that companies have tended to outsource for short-term cost reduction rather than taking a more strategic perspective of improving long-term business results (McIvor, 2000). Learning theorists have argued that organizations can share ideas, knowledge, and information that stimulate each other to experiment and innovate with new processes, products, and services (Argyris & Schon, 1996). Lakshman and Paraente (2008) found that sharing knowledge contributed to supply chain partners' financial performance. As members of the same industry, outsourcing partners can identify useful ideas and suggestions that can be applied directly to improve business practice and results.

However, learning and implementing new ideas, even from those organizations within the same industry, are also highly demanding. Partners must face their own shortcomings and problems, listen to and understand ideas and practices,

modify them to fit their circumstances, overcome resistance, and implement new approaches. West (2002) concluded that innovation requires integrating interaction so that partners combine their diverse knowledge and skills. Organizational innovation is a collaborative process of ongoing effort to understand customer needs and develop effective ways to meet them (Burpitt & Bigoness, 1997). Indeed, the capacity to work effectively with partners has been thought to be a vital competence because developing the proper conditions for productive collaboration and innovation is very challenging (Barney, 2001).

This study proposes that the exchange of effective business practices, defined as the mutual discussion of partners' ideas, knowledge, and information, very much helps businesses develop (Kwok & Gao, 2005/2006; Mulligan, 2000). With this kind of discussion, partners are able to combine each other's ideas and other abilities to overcome barriers to innovate. They recognize each other's ideas and use them to develop and implement improvements.

Based on the above research and reasoning, it is hypothesized that:

H1. To the extent that outsourcing partners discuss effective business practices, they develop their business.

The Chinese enterprises that participated in this study may have strong pressures to learn and develop as they must now compete in a dynamic market system with many new domestic and foreign competitors after decades in a subsidized, state-dominated marketplace. However, the need and opportunity to learn from each other does not mean that organizations take advantage of opportunities.

Indeed, the emphasis in the literature has been on the transaction costs that make it burdensome to collaborate across organizations (Hill, 1990). These costs may

easily outweigh the benefits of close collaboration. In addition, organizations have been portrayed as so self-interested that they have difficulty relying upon each other. Specifically, they are worried that other organizations pursue their self-interests with guile and engage in opportunism (Buvik & Andersen, 2002; Das and Rahman, 2002; Jap & Anderson, 2003). They fear that others will not reciprocate and indeed use knowledge at their expense.

Collaboration researchers have identified additional barriers. Believing that they can prosper from common success without effort, team members have been found to engage in social loafing and letting others do the work (Karau & Williams, 1993). Individual partners may attempt to promote their own interests and bargain for methods and decisions that promote their own agendas, not those of the partnership as a whole (Pfeffer, 1981). Developing a contract for services does not insure that partners feel willing to discuss their knowledge and share their ideas about effective practices. This study proposes that cooperative relationships are the foundations for open discussions and exchange that help partners integrate ideas and learn so that they develop their business.

The Theory of Cooperation and Competition

Theorists from the West have recently joined Asian ones in arguing that the nature of the interpersonal relationships has dramatic effects on the coordination between organizational members (Kramer & Tyler, 1996; Kumar, 1996; Lewicki & Wiethoff, 2000; Rousseau, et al, 1998). More specifically, recent studies have suggested that the nature of the relationship can very much affect the performance of inter-organizational alliances (Boddy, Macbeth & Wagner, 2000; Geyskens, et al, 2006; Hardy, Phillips, & Lawrence, 2003; Parks & Easton, 2000; Subramani &

Venkatraman, 2003; Tiessen & Linton, 2000). Open mutual exchange has been found to improve performance in international joint ventures (Luo & Park, 2004). A relationship orientation measured by flexibility, information exchange, and solidarity between manufacturers and foreign distributors developed trust and improved performance (Zhang, Cavusgil, & Roath, 2003).

Several theorists have proposed that trusting relationships are vital for managing inter-organizational collaboration effective, especially in developing countries (Cullen, Johnson, & Sakano, 2000; Lui & Ngo, 2004; Nguyen, Weinstein, & Meyer, 2005). Relational capital and mutual trust can help partners protect themselves from costs and exploitation (Kale, Singh & Perlmutter, 2000). Ireland, Hitt, and Vaidyanath (2003) argued that to utilize organizational alliances effectively partners should build effective interpersonal connections as well as employ government mechanics to monitor and control the alliance.

This study uses the theory of cooperation and competition to analyze the nature of effective relationships between outsourcing partners. The theory holds that the beliefs of people and organizations about how their goals are related to each other affects the dynamics and consequences of their interaction; that is, the way goals of individuals and groups are structured determines their interaction and outcomes (Deutsch, 1973; Johnson & Johnson, 1989). When goals are structured cooperatively, people believe their goals are positively related so that as one moves toward goal achievement, others do too.

In competition with the belief that their goals are incompatible, people expect that other's successful goal attainment makes them less likely to reach their goals (Deutsch, 1973). Believing that others' goal attainment interferes with their success,

people pursue win-lose rewards, try to maximize their own interests at the expense of others, and promote their self-interest by obstructing other's goals.

In independence, goals are considered to be unrelated (Deutsch, 1973). People tend to apply their own abilities for their individual success without reference to enhancing the other. They believe they can best reach their goals through their own efforts; promoting or obstructing the other's goal attainment does not impact their success.

Previous research indicates that cooperative but not competitive or independent goals lead people to discuss issues open-mindedly and to integrate ideas to create solutions that they are committed to implement. Because they understand that they can be successful together, people in cooperation are committed to helping each other act effectively. They seek mutual goals and resolve issues for mutual benefit by combining their ideas and sharing rewards (Deutsch, 1973). This integrative interaction, in turn, results in high-quality solutions to problems and productive work (Johnson, Maruyama, Johnson, & Skon, 1981; Tjosvold, 1998).

Experimental and field research have documented that people with cooperative goals engage in direct discussions and full exchange of views that lead to the understanding of each other's perspectives and quality decisions and implementation (Alper, Tjosvold, & Law, 1998; Tjosvold, 1998, 1982). These studies suggest that people with cooperative goals, when confronted with diverse views, ask questions, seek to understand others, and conclude that opposing arguments are reasonable. Through discussing and understanding various views, they begin to combine ideas to create high quality solutions. These dynamics lead to quality

solutions that people accept and implement and develop confidence in future collaboration.

Based on this reasoning, it is hypothesized that:

H2. To the extent that outsourcing partners believe their goals are cooperative, they discuss their practices openly with each other.

H3. To the extent that outsourcing partners believe their goals are competitive, they refrain from discussing their practices openly with each other.

H4. To the extent that outsourcing partners believe their goals are independent, they refrain from discussing their practices openly with each other.

Overall Model

Theory and research suggest that discussing effective business practices mediates between cooperative goals and business development. Cooperative goals are expected to contribute to rich discussions that in turn stimulate experience sharing and learning that improves business results (Figure 1). This study uses structural equation modeling to test this theorizing and compare it to alternatives.

Insert Figure 1 about here

METHOD

Participants

This study investigates the conditions and dynamics of collaboration between outsourcing partners in mainland China. Data were collected in Shanghai, China, from different kinds of organizations from various industries. One hundred and twenty five organizations were recruited in Shanghai through our connections to participate in the study. Similar to previous studies of inter-firm relationships (Morgan and Hunt 1994; 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 outsourcing partners. This approach does not require the informant to respond to collaboration generally but allows them to focus on a specific relationship.

As recommended in the research on partnerships (Kumar, Stern, & Anderson 1993; Lambe, Spekman, & Hunt, 2002), we identified the persons highly knowledgeable about the outsourcing relationship in each organization. We first approached the informant organization and then asked a person very knowledgeable about their collaboration with an outsourcing partner to complete the questionnaire. The informant also identified the outsourcing partner. We then independently contacted the outsourcing partner 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 125 paired outsourcing partners, 12 pairs withdrew because of the lack of time or interest in the study; 113 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, 95 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 their goal interdependence and their effective practices sharing with their outsourcing partners. The outsourcing partner organizations were asked to provide data on the outcome variable of business development. This procedure should reduce same source bias.

Of the respondents, 53% of them were front line staff, 21% 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 69% at university level, 19% at senior secondary level, 8% at postgraduate or above, and 4% below senior secondary level. Regarding age, 45% of the respondents were younger than 30, 42% were between 30 and 39, 10% were between 40 and 49, and 3 % were above 50. The average length of relationships between the informant organizations and the outsourcing partner organizations was 3.5 years. As for the type of outsourcing, 33% of the outsourcing partner organizations were involved in carrying out sales and customer service for the informant organizations, 21 % were involved in research and development activities, 15% in logistics service, 14% in production, 7% in maintenance and support service, and 10% in other activities.

Regarding the industry of the sample companies, 18 % were in manufacturing, 14% in information and software services, 11% in wholesale and retailing, 11% in financial services, 6% in transportation, storage and distribution, 6 % in cultural, sports and entertainment, 4% in each of the three industries of catering, real estate, and research and technology services, and 3% in each of the three industries of education, business service and social welfare. The remaining 13% of companies were in other industries. This pattern is similar to that of the industry structure in Shanghai (Shanghai Statistical Bureau, 2007).

Measures

Goal interdependence

Scales for cooperative, competitive and independent goals were developed from a questionnaire study conducted in North America (Alper, et al, 1998). The four cooperative goal items measured the emphasis on mutual goals and common tasks. A sample item for the cooperative goal scale is “Our partner and we seek compatible goals”. Participants were asked to rate on a 5-point scale (1=strongly disagree, 5=strongly agree) their degree of agreement to the items of this scale and other scales used in the study. Appendix A has all the items for the study’s measures.

The four competitive goal items measured the emphasis on incompatible goals and work tasks. A sample item is “Our partner’s goals are incompatible with our goals”. The independent goal scale had four items to measure the emphasis on unrelated goals and rewards. A sample item is “Our success is unrelated to our partner’s”.

The scales were rated by participants in the informant organizations and all demonstrated acceptable reliability. The coefficient alphas for the cooperative, competitive and independent goal scales were .72, .79, and .86 respectively.

Effective Practices Sharing

Effective Practices Sharing is the mutual discussion of partners' ideas, knowledge, and information so that they can combine each other's ideas and use them to develop and implement improvements. The six item scale was adapted from Kwok and Gao (2005/2006) and Mulligan (2000). A sample item is "The partner and we try to make it easier to access to each other's knowledge." The scale was rated by the informant organizations and had a coefficient alpha of .70.

Business Development

This scale assesses the extent that companies and their outsourcing partners can work together to improve their business performance. The scale was adapted from the study of Tjosvold, Peng, Chen and Su (in press). A sample item is "The partnership helps us improve the quality of the product or service delivered to customers." The scale was rated by the partners of the informant organizations and had a coefficient alpha of .70.

Translations Procedures

Two members of the research team who are native Chinese translated the questionnaires originally written in English into Chinese. To ensure conceptual consistency, the questionnaires were back translated into English to check for possible deviation (Brislin, 1970). The questionnaires were pre-tested to make sure that respondents clearly understood every phrase, concept, and question.

ANALYSES

Scale Validation

We conducted a series of confirmatory factor analyses to test whether the respondents' rating would load on five distinct factors, namely cooperative,

competitive and independent goals, effective practices sharing, and business development to ensure that the items were measuring distinct constructs.

The confirmatory factor analyses were conducted using LISREL8 (Jöreskog & Sörbom, 1996). The effective sample size for the present study was 95 partners. The indicators to sample size ratio hence was favorable with five latent constructs.

Insert Table 1 about here

Table 1 shows the results of these series of confirmatory factor analyses. Model M0 in Table 1 shows that our proposed 5-factor model fits the data quite well. The Comparative Fit Index (CFI) and the Incremental Fit Index (IFI) are .92 and .92. This 5-factor model was then compared to 4 different 4-factor models. Each of these 4-factor models was formed by merging two of the five variables into one aggregate factor. These four alternative 4-factor models were selected based the inter-correlations among the five variables. Competitive goal and independent goal are highly positively related ($r=.64$). Cooperative goal has strong correlations with effective practices sharing and industry development ($r=.44$ and $r=.42$ respectively). Effective practices sharing and industry development are also highly positively related ($r=.39$). These four pairs of variables were each combined to form a single factor that was tested against the proposed 5-factor model.

Results in Table 1 show that model chi-squares increase significantly when we move from the 5-factor model to any of the four 4-factor models. The comparisons of the fits of the 5-factor model to four 4-factor models suggest that the five 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 goal interdependence, effective practices sharing and industry development. The covariance structure analysis of the inter-relationship among these constructs was analyzed using LISREL8 (Joöreskog & Soörbom, 1996).

We wanted to evaluate the fit of the hypothesized model proposing that effective practices sharing mediates between cooperative, competitive, and independent goals and industry development and compared it with the saturated model that also included direct links between goal interdependence and industry development. However, even if the hypothesized model fits the data well, other models may fit the data equally well. Hayduk (1987) encouraged testing of alternative models that are compelling. For this study, alternatives directly related to the hypothesized mediating variable of effective practices sharing are the most relevant (Table 2). Specifically, the first alternative model (A1) holds that goal interdependence has direct effects on both effective practices sharing and industry development without effective practices sharing affecting industry development. A second alternative (A2) indicates that both goal interdependence and effective practices sharing are the antecedents of industry development.

RESULTS

Zero-order correlations provide an initial examination of the hypotheses linking goal interdependence and effective practices sharing as rated by respondents in the informant organizations and industry development as rated by respondents in the outsourcing partner organizations (Table 3). In support of hypothesis one, effective practices sharing was positively and significantly correlated with business

development ($r=.39$, $p<.01$). Results provided strong support for the second hypothesis that to the extent to which outsourcing partners believe they have cooperative goals they discuss their practices openly with each other. Cooperative goals was positively correlated with best practices sharing ($r=.44$, $p<.01$). Results also provided strong support for the third and fourth hypotheses that to the extent to which competitive organizations believe they have competitive and independent goals they refrain from discussing their practices openly with each other. Competitive and independent goals were significantly and negatively correlated with best practices sharing ($r=-.29$, $p<.01$; $r=-.42$, $p<.01$).

 Insert Tables 2 & 3 about here

The fit statistics indicate that the hypothesized model fits the data well (Table 2). However, there is a significant difference between the hypothesized model and the saturated model (χ^2 difference=13.37, d.f. difference=3, $p <.01$). A closer look of the modification indices indicated that the hypothesized model can be improved by adding a path from cooperative goals to business development. Therefore, we modified the hypothesized model accordingly. As the modified model had much better fit indices than the theorized model and there is no significant difference between the modified model and the saturated model, we adopted the Modified Model. The Modified Model was also compared to alternatives relevant to the idea that the variable of effective practices sharing mediates between goal interdependence and business development: (A1) goal interdependence has direct impacts on both effective practices sharing and business development, (A2) goal interdependence and effective practices sharing are both antecedents of business development. However,

these alternatives did not improve the fit of the model and the Modified Model was more parsimonious than the alternative models.

The path coefficients of the accepted Modified Model help to explore the findings more specifically (Figure 2). Results indicated that cooperative goals had significant positive relationship with effective practices sharing ($\beta = .50, p < .01$) while competitive goals and independent goals had negative though not significant relationship with effective practices sharing ($\beta = -.07, p = n.s.$; $\beta = -.28, p = n.s.$). Effective practices sharing appeared to have positive effects on business development evaluated by the outsourcing partner organizations ($\beta = .40, p < .01$). In addition, cooperative goals had a significant positive relationship with business development ($\beta = .49, p < .01$).

In regards to model fit, the Modified Model had a chi-square of 211.04 with 176 degree of freedom. The Comparative Fit Index (CFI) and Incremental Fit Index (IFI) for the model were .92 and .92 respectively. Both fit indices were considered as indicating extremely good model fit, given the usually accepted critical value of .90 (Bentler & Bonnett, 1980).

Insert Figure 2 about here

DISCUSSION

Outsourcing partners are potentially valuable allies in helping each other develop their businesses as they can learn from each other's effective practices and experiences within the same industry. In addition to the desire to learn, partners have to overcome barriers to close, integrative collaboration to share their experiences and

knowledge. Results of this study suggest that partners are more willing to exchange their learning and ideas when they believe that their goals are cooperative rather than competitive or independent. Results of the structural equation analysis provide good support for the proposed model that discussing effective business practices mediates between cooperative and competitive goals and business development.

Outsourcing can be useful over and above the benefits of increased efficiency. Partners when they develop strong, cooperative relationships are prepared to help each other understand their industry better and specifically to consider more effective business practices. Their discussions appear to stimulate modifications and improvements that in turn help each partner become more effective at serving their customers and meeting other business needs.

But there are significant barriers to fruitful collaboration between partners. In addition to the costs of interaction, partners may also suspect that others act opportunistically by exploiting their partners as they pursue their self-interests with guile (Buvik & Andersen, 2002). Recent research has begun to identify the conditions under which opportunistic threats are more and less prominent (Kale, et al, 2000; Madhok, 1995). Specifically, cooperative goals have been found to reduce fears of opportunism (Wong, Tjosvold, & Yu, 2005). This study adds to this literature by suggesting that partners who believe that they have cooperative rather than competitive or independent goals are willing to work with their partners and discuss their knowledge freely.

Findings are consistent with recent theorizing on the value of relationships for partnerships (Buvik, & John, 2000; Kale, Singh, & Perlmutter, 2000). Researchers have long argued that relationships are very important for business and organizational

work in collectivist Asia (Hui, Law, & Chen, 1999; Leung, 1997). Lately, researchers in the West have joined those in the East by arguing that relationships have a profound impact on decision making, negotiations, and other aspects of organizational work (Hitt, Lee, & Yucel, 2002; Lovett, Simmons, & Kali, 1999). Results confirm that partnerships can be a source of innovation but that these partnerships must be well-managed if they are to be so useful. This study identifies critical aspects of these constructive relationships. Sharing effective business practices seems to be an important way to characterize the integrative interaction that stimulates innovations in partnerships (West, 2002). In addition, findings indicate that cooperative goals underline this kind of open, useful discussions.

Western theorists have recently agreed with Chinese ones that the nature of relationships critically affect work, especially in the today's open, networked organizations and economies (Kramer & Tyler, 1996; Miles, Snow, Mathews, Miles, & Coleman, 1997). This study further supports this theorizing that inter-organizational relationships very much contribute to organizational work

The ideas of cooperative and competitive goals and sharing effective practices, despite their origin in the West, proved useful for understanding organizational relationships in China (Deutsch, 1973). Indeed, the means (Table 3) suggest that organizations used both cooperative and competitive goals in their outsourcing relationships. 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). The research approach used in this study can both

probe general theories and improve understanding of organizational dynamics in non-Western cultures.

LIMITATIONS

The sample and operations limit the results of this study. The data are self-reported and subject to biases and may not accurately describe the relationships, although recent research suggests that self-reported data are not as limited as commonly expected (Spector, 1992). These data are also correlational and do not provide direct evidence of causal links between goal interdependence, sharing effective practices, and business development.

However, the study developed independent measures of goal interdependence, sharing effective practices, and business development. Managers from one partner rated goal interdependence, sharing effective practices whereas a manager from the paired organization rated business development. Developing different sources for the independent and dependent measures should reduce the possibilities of same source method as an alternative explanation of the results (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Spector and Brannick (1995) have argued that the most effective way to overcome recall and other methodological weaknesses is to test ideas with different methods. This study used questionnaires with a sample drawn from 95 pairs of organizations to complement previous experimental research on cooperative and competitive goal interdependence.

PRACTICAL IMPLICATIONS

Outsourcing has garnered increasingly research attention as it appears to become a more integral part of companies' business models. Findings support the

suggestion that much more research and professional attention is needed on the management of the outsourcing partnership (Mullin, 1996).

Researchers have proposed the potential value of collaboration between outsourcing partners over and above increased efficiency. Results of this study identify goal interdependence and sharing effective practices as critical ingredients to making outsourcing fruitful for developing business. The hypotheses, if they can continue to be supported, have important practical implications for developing collaboration between outsourcing partners, especially in China. This study provided empirical evidence of the value of cooperative goals and that competitive and independent goals undermine the capacity to learn from each other's effective practices and experiences and thereby frustrate partners serving their customers and meeting other business needs. To strengthen cooperative goals, partners can together develop common tasks, integrated roles, personal relationships, and shared reward distributions that reinforce cooperative goal interdependence (Hambrick, 1994; Hanlon, Meyer & Taylor, 1994; Li, Xin, Tsui, & Hambrick, 1999; Pearce, 1997; Tjosvold & Tjosvold, 1995).

In addition to growing emphasis on teamwork within organization, organizations are increasingly realizing that they must work with other organizations in order to reduce costs and in other ways improve the value they deliver to customers. Outsourcing partners can strengthen their businesses more generally as well as reduce costs by effective collaboration. Developing effective links between outsourcing partners, though they are in the same industry, would appear to be a useful aspect of an effective market economy.

Results support the argument that the kind of relationship that outsourcing partners developed very much affects how effectively they can learn from each other's

effective practices and experiences within the same industry. Outsourcing partners who emphasize their competitive or independent goals appear to have considerable difficulties in discussing issues and in other ways learning from each other; these barriers in turn undermine their capacity to develop their business. Cooperative goals were found to promote productive partnerships directly. Outsourcing partners who believe their goals are positively related and not competitively or independently related may learn from each other and improve their business performance. Results were interpreted as suggesting that cooperative goals are important foundations for effective management of outsourcing relationships in China, and perhaps other countries as well.

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APPENDIX A

Items in Scales

Cooperative Goal

- ♦ Our partner and we ‘swim or sink’ together.
- ♦ Our partner and we want each other to succeed.
- ♦ Our partner and we seek compatible goals.
- ♦ When our partner and we work together, we usually have common goals.

Competitive Goal

- ♦ Our partner structures things in ways that favor their goals rather than our goals.
- ♦ Our partner and we like to show that they are superior to each other.
- ♦ Our partner’s goals are incompatible with our goals.
- ♦ Our partner gives high priority to the things they want to accomplish and low priority to the things we want to accomplish.

Independent Goal

- ♦ Our partner and we work for our own independent goals.
- ♦ Our success is unrelated to our partner.
- ♦ The partner likes to get its rewards through its own individual work.
- ♦ The partner is most concerned about what it accomplishes when working by itself.

Effective Practices Sharing

- ♦ The partner and we try to make it easier to access to each other’s knowledge.
- ♦ Our approaches to sharing best practice are conducted conveniently and flexible in time and place.
- ♦ Our effort in sharing the best practice is rewarded and recognized.
- ♦ The partner and we feel glad and supported when we are sharing our best practices.
- ♦ The partner and we improve the work efficiency after sharing our best practices.
- ♦ The partner and we assimilate each other’s knowledge and apply it to solve our own problems.

Business Development

- ♦ The partnership helps us improve the quality of the product or service to customers.
- ♦ The partnership reduces the costs of delivering the product or service to customers.
- ♦ The partnership helps improve pricing.
- ♦ The partnership contributes to an effective marketplace.

FIGURE 1
Hypothesized Model

FIGURE 2

Path Estimates for the Modified Model

TABLE 1
Scale validation --- Confirmatory Factor Analysis

	χ^2	<i>df</i>	$\Delta\chi^2$	CFI	IFI	RMSEA	Std RMR
Baseline 5-Factor Model (M0)	208.64	174		.92	.92	.046	.075
4-Factor Model (M1) Combined Competitive Goal with Independent Goal	249.72	178	41.08**	.88	.89	.065	.078
4-Factor Model (M2) Combined Cooperative Goal with Industry Development	225.72	178	17.08**	.90	.91	.053	.080
4-Factor Model (M3) Combined Cooperative Goal with Effective Practices Sharing	270.93	178	62.29**	.87	.88	.075	.083
4-Factor Model (M4) Combined Practice with Business Development	239.27	178	31.06**	.89	.90	.061	.076

1. 5-factor Model includes cooperative goals, competitive goals, independent goals, effective practices sharing and business development.
2. **p<.01
3. χ^2 is the model chi-square; $\Delta\chi^2$ is the change in model chi-square
4. IFI = Incremental Fit Index; CFI = Comparative Fit Index
5. RMSEA=Root Mean Square Error of Approximation; Std RMR=Root Mean Square Residual

TABLE 2
Saturated, Hypothesized and Alternative Models

	χ^2	<i>df</i>	$\Delta\chi^2$	CFI	IFI	RMSEA	Std RMR
Saturated Model							
Goal interdependence has direct links to effective practices sharing and business development and effective practices sharing has direct links to business development	208.64	174		.92	.92	.046	.075
Theorised model							
Goal interdependence has direct links to effective practices sharing and effective practices sharing has direct links to business development (deleting links from goal interdependence to business development)	222.37	177	13.73**	.91	.91	.052	0.078
Modified Model							
Goal interdependence has direct links to effective practices sharing and effective practices sharing has direct links to business development; cooperative goal has direct links with business development (deleting links from competitive goals and independent goals to business development)	211.04	176	2.4	.92	.92	.046	0.078
Alternative Model (A1)							
Goal interdependence has direct links to effective practices sharing and business development (deleting links from effective practices sharing to business development)	211.07	175	2.43	.91	.92	.047	.077
Alternative Model (A2)							
Goal interdependence and effective practices sharing have direct links to business development (deleting links from goal interdependence to effective practices sharing)	208.64	174	-	.92	.92	.046	.075

**p<.01

TABLE 3
Means, Standard Deviations, Reliabilities and Correlations

Variables	Mean	S. D.	Items	Alpha	1	2	3	4
1. Cooperative Goals	3.67	.73	4	.72				
2. Competitive Goals	2.74	.94	4	.79	-.19 [†]			
3. Independent Goals	2.59	.96	4	.86	-.21*	.64**		
4. Effective Practices Sharing	3.64	.57	6	.70	.44**	-.29**	-.42**	
5. Business Development	3.80	.63	4	.70	.42**	-.31**	-.31**	.39**

1. * $p < 0.01$

2. * $p < 0.05$

3. [†] $p < .10$

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