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Alfred Wong Lu Wei Dean Tjosvold

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Business confidence in government regulators

Cooperative goals and confirmation of face in China

Alfred Wong

Department of Management, Lingnan University, Hong Kong, Hong Kong

Lu Wei

*School of International and Public Affairs, Shanghai Jiao Tong University,
Shanghai, China, and*

Dean Tjosvold

*Department of Management, Lingnam University, Hong Kong,
Hong Kong*

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Abstract

Purpose – This study aims to examine the conditions that help businesses develop confidence in their government regulators. Businesses are dependent upon governments and subject to their regulations. This study proposes that businesses and governments that confirm each other's social face have the relationship that helps businesses become confident in their government regulators. It also uses the theory of cooperation and competition to identify when they confirm social face.

Design/methodology/approach – Data were collected in Shanghai, China, from government bodies and business organizations from diverse industries. One hundred forty-six pairs of government officials and business managers provided us data for our analysis.

Findings – Structural equation analysis suggests that cooperative, but not competitive or independent, goals provide the foundation for mutual confirmation of social face that in turn results in business confidence that the government is competent, caring and regulates effectively.

Practical implications – These findings were interpreted as reaffirming the value of relationships for collaboration between business and government and the usefulness of the concepts of social face and goal interdependence for understanding how to develop high-quality business–government relationships in China.

Originality/value – This study directly investigates social face among Chinese people and explores its impact on inter-organizational government–business relationships. This study uses social face and goal interdependence to understand when business and regulators develop relationships that promote effective regulation.

Keywords Inter-organizational relationships, Cooperation and competition, Government relations, Social face

Paper type Research paper



Business managers recognize that governments and their regulations matter (Dougherty and McGuckin, 2008; Pearce *et al.*, 2011), especially in China, where the data

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for this study were collected (Ahlstrom *et al.*, 2008; Krug and Hendrichske, 2008). Realizing their dependence and potential disputes, business managers want to be confident that their regulators are competent, caring and regulate effectively. High-quality inter-organizational relationships with government officials, much as with their supply chain partners and industry members, would seem to help business managers develop this confidence (Buvik and Gronhaug, 2000; Wong and Tjosvold, 2010). Indeed, managers have long been advised that developing relationships with government officials is critical for successful business in China (Xin and Pearce, 1996). However, developing effective inter-organizational relationships is challenging (Boddy *et al.*, 2000).

This study proposes that social face is a useful way to understand the nature of regulator–business relationships that results in business confidence in regulators; managers and regulators who confirm each other’s social face are optimistic that they can integrate their ideas and resolve their concerns (Wong *et al.*, 2007). We also argue that the Western-developed theory of cooperation and competition identifies when regulators and business managers confirm each other’s face: cooperative (positively related) goals, in contrast to competitive or independent goals, provide the foundation for regulators and managers to communicate that they respect each other as capable and this confirmation of social face results in business confidence in government regulators.

This study makes several contributions to the literature. Although the effects of social face have been thought to be powerful and are often used to explain such findings as Asian people’s tendency to avoid conflict (Kirkbride *et al.*, 1991; Tse *et al.*, 1994), little empirical work, especially in East Asia, has directly studied social face (Cocroft and Ting-Toomey, 1994; Kam, and Bond, 2008; Liao and Bond, 2011; Leung and Cohen, 2011; Oetzel *et al.*, 2008). This study directly investigates social face among Chinese people and explores its impact on inter-organizational government–business relationships. It tests a model linking goal interdependence with social face with confidence in government regulators (Figure 1). It proposes that cooperative goals is a foundation for the mutual confirmation of social face that in turn very much contributes to business confidence in government regulators. The study makes methodological contributions in that it allowed independent measures of goal interdependence, social face and business confidence. Business organizations rated their confidence in government regulators and government organizations rated the extent of mutual confirmation of social face and

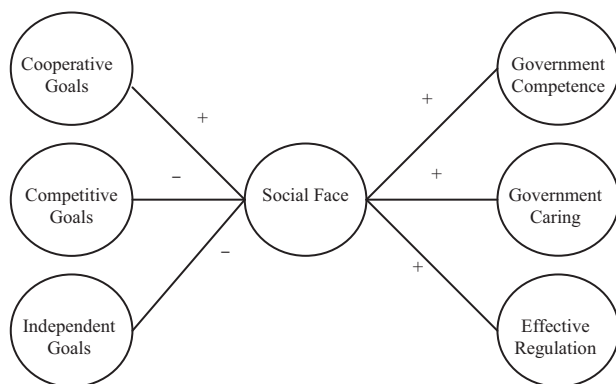


Figure 1.
Hypothesized model

goal interdependence. This study directly tests that the interaction of confirmation mediates between perceived goal interdependence and the outcome of business confidence. It finds evidence that government–business relationships with cooperative goals confirm each other’s social face and develop confidence in government regulators in a sample of government–business relationships in Shanghai, China.

Researchers have been skeptical that business and regulators can work together to promote effective regulation and public interests. Capture theory argues that as they depend extensively on regulators, businesses “capture” regulators so that they serve their interests rather than the general public who are distracted and fail to monitor regulators (Stigler, 1971). This theory has been used to argue that regulation is ineffective and that governments should develop market-friendly policies. However, recent evidence suggests that capturing is not inevitable and that regulators can perform professionally and regulate effectively (Etzioni, 2009; Thomas *et al.*, 2010). Recent research has showed that local governments in China can but do not always effectively supervise companies (Dougherty and McGuckin, 2008). This study uses social face and goal interdependence to understand when business and regulators develop relationships that promote effective regulation.

Social face

Social scientists have argued that social face, although not restricted to East Asians, is especially valued in Chinese society for promoting effective interpersonal relationships (Friedman *et al.*, 2011; Hwang, 1985; Kam, and Bond, 2008; Lin and Yamaguchi, 2011; Oetzel and Ting-Toomey, 2003; Zhang *et al.*, 2011). Chinese people, as they are collectivists with a strong emphasis on maintaining relationships, are expected to be particularly motivated to protect the face of others and be concerned that their own face be accepted (Oetzel *et al.*, 2001; Triandis *et al.*, 1990). Government and other leaders are thought to very much value social face because it is especially important that respect be bestowed on those in superior positions (Peng and Tjosvold, 2011).

Although theories in the West cannot be assumed to apply in the East (Hofstede, 1993), research conducted in the West may help identify social face and suggest how it affects interaction in China. Social face assumes people attempt to project a desirable image and want assurance that their image is accepted (Tjosvold, 1983). Goffman (1967, p. 2), a pioneer in social face research, proposed that face is “an image of the self delineated in terms of approved social attributes”. People use culturally approved ways to project a favorable image and that image should reflect strength (Deutsch and Krauss, 1962). Social face then can be defined as the image of competence and strength people want to project to others.

Studies conducted in China have emphasized that it is not simply social face concerns that impact interaction but how these concerns are managed (Tjosvold *et al.*, 2004; Tjosvold and Sun, 2000). In particular, social face can be confirmed or disconfirmed. Confirmation of face involves communication that the person is considered capable and strong; disconfirmation (also called an affront to face or a loss of face) communicates that the other is considered incapable and weak.

Research has concentrated on demonstrating how people respond to disconfirmation because social face is thought to be most apparent when absent (Goffman, 1959). People are expected to be both ready to prevent disconfirmation and make restitution after they have suffered an affront to face (Brown, 1968; Goffman, 1959, 1967). Those who have lost

face do not act consistently with this image but attempt to assert themselves as strong. Studies document that affronts to face result in closed-mindedness and aggression that are communicated by such methods as counter threat, few concessions, deception and refusal to accept proposals (Brown, 1968; Deutsch, 1973; Deutsch and Krauss, 1962; Tjosvold and Huston, 1978). Disconfirmation of face is punitive and people become defiantly closed-minded toward each other, which in turn very much undermines their confidence and ability to integrate their ideas and efforts (Coleman *et al.*, 2009). Disconfirmation invalidates the other's identity and thereby undermines conflict management (Fiol *et al.*, 2008).

This study proposes that mutual confirmation of social face that occurs to the extent that partners communicate they consider each other capable and strong is an important foundation for the relationship between governments and businesses. Compared to disconfirmation, confirmation of social face should help governments and businesses feel supported by each other and thereby help them approach each other; they want to work with each other rather than keep their distance (Wong *et al.*, 2007). But will confirmation of social face also promote conflict management? Because businesses and governments will inevitably be frustrated and disagree with each other's action, they also need the ability to discuss differences and manage conflict to maintain their relationship.

Traditionally, social face concerns have been thought to promote strong relationships in part because they inhibit openness, especially about disappointments and frustrations. The understanding of social face by Chinese people and their collectivism lead them to be hesitant about engaging in divisive discussions (Friedman *et al.*, 2011; Kirkbride *et al.*, 1991; Hwang, 1985; Kam, and Bond, 2008; Oetzel and Ting-Toomey, 2003; Tse *et al.*, 1994). Given their social face concerns, they communicate that they respect their partners as capable and worthy by seeking interpersonal harmony (Ting-Toomey, 1988). It may seem then that confirmation of social face results in conflict avoidance.

Recent studies in China have challenged the theorizing that social face concerns themselves induce Chinese people to avoid controversial discussions (Peng and Tjosvold, 2011). Both field and experimental findings show that the confirmation of social face where people believed they are seen as competent and strong helps Chinese people discuss their differences and frustrations directly and open-mindedly with each other (Tjosvold *et al.*, 2004; Tjosvold and Sun, 2000). In experiments, confirmation of personal face, compared to affronts, promoted uncertainty about one's original position, exploration and understanding of the opposing view, efforts to integrate positions and confidence in the relationship (Tjosvold *et al.*, 2004; Tjosvold and Sun, 2000).

Businesses that develop relationships with governments with mutual confirmation of social face as a foundation then would seem to provide good reasons for confidence in government regulators. Businesses and governments would seem to approach each other with positive expectations, including being able to discuss their differences and frustrations open-mindedly and constructively. Considerable research, in turn, suggests that these constructive discussions should in turn help businesses believe that they will work productively with government regulators (Tjosvold *et al.*, 2015).

Based on the above reasoning, it is hypothesized that:

- H1. Mutual confirmation of social face between government and businesses results in business confidence in that businesses believe the government is competent, caring and regulates effectively.

Theory of cooperation and competition

Confirmation of social face appears to be very useful for government–business and other relationships but also a challenge to develop. The divide between governments and businesses can seem very wide; it can be difficult to appreciate how they can really support each other. As with other inter-organizational relationships, frustrations, miscommunications and misunderstandings are not only possible but likely as each organization has its own goals and its own culture and ways of working (Park and Ungson, 2001; Young-Ybarra and Wiersema, 1999). In addition to each side communicating that they appreciate each other's competence and value their contributions, governments and businesses would seem to be able to clarify misunderstandings and develop consistent message that each organization is respected and valued.

This study assumes that governments and businesses pursue their own interests and goals, but, contrary to much theorizing in management, it proposes that the pursuit of self-interest itself does not harm the relationship. What is critical is not whether and the extent to which partners are self-interested, but how they believe their self-interests to be related to each other. The theory of cooperation and competition develops this argument.

Goal Interdependence

Assuming that individuals and groups pursue their self-interests by working to reach their goals, Deutsch (1973) argued that the pursuit of self-interests could be the basis for effective collaboration and relationships. Deutsch theorized that how goals are perceived to be related determines how people work together, and these interaction patterns determine outcomes (Alper *et al.*, 1998; Deutsch, 1973; Johnson and Johnson, 1989).

Goals may be structured so that organizations promote the success of others, obstruct the success of others or have no impact as they pursue their self-interests. In cooperative goal interdependence, organizations believe their goal achievements are positively correlated; they can reach their goals to the extent that others also reach their goals. In competition, organizations believe their goal achievements are negatively correlated; each perceives that the achievement of one prohibits or at least makes it less likely that others will achieve their goals. With independent goals, achievements are thought to be unrelated.

Expectations and Interaction

Whether organizations understand that their goals are related cooperatively, competitively or independently critically affects their expectations and orientations to each other. With cooperative goals, organizations believe that as one organization moves toward goal attainment, others move toward reaching their goals. They understand that as others' goal attainment helps them; they can be successful together. As a consequence, organizations want each other to perform effectively and seek outcomes that are beneficial to all those with whom they are cooperatively linked. They expect each other to use their abilities to work for mutual benefit (Lewicki *et al.*, 1998).

Realizing that the success of others helps them be successful, they provide more help and assistance to each other in terms of physical resources but also social and psychological support, including confirmation of social face (Deutsch, 1973; Johnson and Johnson, 2005).

In competition, organizations work against each other to achieve a goal that only one or a few can attain. They withhold information and ideas as they pursue their own goals and may even be tempted to obstruct the goal progress of others (Deutsch, 1973; Johnson and Johnson, 2005). They want to win the competition and outdo each other. Thus, organizations seek an outcome that is self-beneficial but detrimental to others. Recognizing that the success of others makes their failure more likely, they withhold physical and psychological resources and may even try to obstruct and disrupt the others to obstruct their success (Deutsch, 1973; Johnson and Johnson, 2005).

With independent goals, organizations expect that others will work for their own goals with little regard for the goals of others. Having few incentives to use their abilities to assist each other, they withdraw and become indifferent to the interests of others. Thus, organizations seek an outcome that is self-beneficial without concern for the outcomes of others. They have little reason to obstruct or support others (Deutsch, 1973; Johnson and Johnson, 2005).

The theory of cooperation and competition and the research that has developed it suggest then that cooperative goals between organizations can develop confirmation of social face. Competitive and independent goals, on the other hand, can raise concerns that the other organization is not helping them and may even exploit them, making confirmation of social face difficult, thereby undermining collaborative effectiveness.

Based on the above literature, this study hypothesizes that:

- H2. To the extent to which business and government organizations believe that they have cooperative goals, they confirm each other's social face.
- H3. To the extent to which business and government organizations believe that they have competitive goals, they do not confirm each other's social face.
- H4. To the extent to which business and government organizations believe that they have independent goals, they do not confirm each other's social face.

Overall model

A recent theoretical integration of research found that results from various traditions indicate that developing strong, mutually beneficial relationships very much contribute to open-minded discussion of opposing positions, which in turn results in constructive conflict (Tjosvold, *et al.*, 2015). Consistent with this analysis, field and experimental findings indicate that the confirmation of social face helps Chinese people even discuss divisive issues openly and constructively (Tjosvold *et al.*, 2004; Tjosvold and Sun, 2000). These open-minded discussions, in turn, convince collaborators that they can manage conflicts so that they work together productively (Tjosvold, 2007).

Specifically, research suggests that confirmation of social face mediates between cooperative, competitive and independent goals and business confidence in government regulations. Goal interdependence is expected to have effects by its impact on how effectively the partners are able to communicate that they believe each other are capable and confident (Figure 1). This study uses structural equation modeling to test this theorizing and compare it to alternatives.

Based on the above research and reasoning, this study hypothesizes that:

H5. Confirmation of social face mediates between cooperative, competitive and independent goals and confidence in government regulators.

Method

Participants

Data were collected in Shanghai, China, from government bodies and business organizations from diverse industries. We invited 200 government officials who were also taking a Master's degree in Public Administration at a university in Shanghai to participate in the study. Similar to previous studies of inter-organization relationships (Morgan and Hunt, 1994), we used the key informant approach. Participants who served as key informants were each asked to focus on their collaboration with a business organization in filling the questionnaire. This approach does not require the informant to respond to collaboration generally but allows them to focus on a specific relationship. We then independently contacted the business organization to identify a business manager knowledgeable about the relationship with the government body and willing to complete the questionnaire. Respondents did not know who was completing the other questionnaire. The key informants in each organization were asked to respond to different measures describing the relationship.

Of the 200 paired government officials and business managers, 7 pairs withdrew because of the lack of time or interest in the study; 193 sets of questionnaires were collected. However, 47 sets were not complete because they lacked the pairing response from either the informant organization or the government body. Thus, 146 sets of questionnaires were included in the data analysis. Participants were assured that their responses would be kept confidential.

This study's theorizing is about the relationship between government officials and business managers and the unit of analysis is the relationship. Therefore, they were both asked to describe their relationship as they completed different surveys. The business managers provided ratings of the extent that they were confident in government regulators, whereas government officials rated the mutual confirmation of social face as well as the relationship's cooperative, competitive and independent goals. This procedure should reduce same source bias.

The respondents from business organizations were on average 36 years of age. Seventy per cent of them were male. Their education level was 63.6 per cent at university level, 24.3 per cent at college level, 3.6 per cent at secondary level and 8.5 per cent at postgraduate level. On average, the respondents had worked with the government bodies for 3.9 years.

Regarding the industry of the sample companies, 32 per cent were in business services, 29 per cent in manufacturing, 15 per cent in information and software services, 7 per cent in finance, 4 per cent in real estate, 4 per cent in culture, sports and entertainment and 3 per cent in social service. The remaining 6 per cent of companies were in other industries. This pattern is similar to that of the industry structure in Shanghai (Shanghai Statistical Bureau, 2010).

Measures

Goal interdependence. Scales for cooperative, competitive and independent goals were developed from a previous questionnaire study conducted in North America

(Alper *et al.*, 1998). The five cooperative goal items measured the emphasis on mutual goals, shared rewards and common tasks. A sample item for the cooperative goal scale is “Our partner and we seek compatible goals”. Government officials were asked to rate on a seven-point scale (1 = strongly disagree, 7 = strongly agree) their degree of agreement to the items of this and other scales used in the study. Appendix has all the items for the study’s measures.

The five competitive goal items measured the emphasis on incompatible goals and rewards. 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 all demonstrated acceptable reliability. The coefficient alphas for the cooperative, competitive and independent goal scales were 0.88, 0.81 and 0.86, respectively.

Social face. The measure of the confirmation of social face was developed from theorizing and studies conducted on social face in North America and China (Tjosvold and Sun, 2000; Tjosvold and Huston, 1978). Government officials rated this four-item scale. A sample item is “The customer and we respect each other”. The coefficient alpha for social face was 0.84 and, therefore, demonstrated acceptable reliability.

Confidence in government. Business managers were asked to evaluate their confidence with the government regulators. The three scales of government competence, caring and government’s ability in industry regulation were developed from Poortinga and Pidgeon (2003).

Government competence and caring. Competence and caring are two different components of confidence (Metlay, 1999). Confidence is gained when the government agency is judged to be reasonably competent in its actions over time. A sample item of the three-item competence scale is “The partner is doing a good job”. Government caring measures managers’ perceptions that the government regulator will act in a way that shows concern for their business. Managers will have confidence in the government regulator if they have these perceptions. A sample item of the three-item government caring scale is “The partner listens to concerns raised by the public”.

Effective regulation. Confidence in the government’s ability to regulate the operation of an industry was measured using two items. A sample item of the two-item scale is “The partner has sufficient rules and regulations to control the operation of the industry”. The coefficient alphas for the government competence, caring and industry regulation scales were 0.89, 0.91 and 0.76, respectively.

Translation procedures

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

Analyses

Scale validation

Because some of the scales used in our analyses were specifically designed for this study, we conducted a series of confirmatory factor analyses to test whether the team

members' rating would load on seven distinct factors, namely, cooperative goals, competitive goals, independent goals, social face, government competence, caring and effective regulation, so as to ensure that the items were measuring distinct constructs.

The confirmatory factor analyses were conducted using LISREL8 (Joöreskog and Soörbomm, 1996). Table I shows the results of a series of confirmatory factor analyses. Model M₀ in Table I shows that our proposed seven-factor model has very good fit indexes ($\chi^2 = 329.28$, $df = 264$, CFI = 0.98, IFI = 0.99 and RMSEA = 0.041). Browne and Cudeck (1993) suggest that a RMSEA of 0.05 indicates a close fit of the model to the data, while 0.08 indicates a reasonable fit. The RMSEA value of the model indicates a close fit to the data. Moreover, its CFI and IFI indexes also meet the generally accepted level of 0.90 (Bentler and Bonnett, 1980).

This seven-factor model was then tested against four different six-factor models (M₁, M₂, M₃ and M₄). Each of the six-factor models was formed by merging two of the seven factors into one aggregate factor. These four alternative six-factor models were selected based on the inter-correlations among the seven variables. Government competence is strongly correlated with caring and effective regulation ($r = 0.70$ and $r = 0.63$, respectively). Government caring and effective regulation are also highly correlated ($r = 0.56$), while competitive goals is strongly correlated with independent goals ($r = 0.71$).

Results in Table I show that model chi-square increases significantly when we move from the seven-factor model to any of the four six-factor models. These four alternative models did not fit the data as well as the seven-factor model. Given the strong support from the nested series of confirmatory factor analysis, we concluded that the seven factors are distinct measures of seven different constructs in our study.

Because all data are self-reported and collected through the same survey, common method variance may bias the estimates of the true relationships between constructs. Following the guidelines suggested by Podsakoff *et al.* (2003), we conducted a Harmon's one-factor test to assess common method bias. Factor analysis results showed that the one-factor model (M₅) did not fit the data well and the first factor derived from an oblique

Model	χ^2	df	$\Delta\chi^2$	NNFI	CFI	IFI	RMSEA	SRMR
Baseline seven-factor model (M0)	329.28	264	–	0.98	0.98	0.99	0.041	0.057
Six-factor model (M1) combined competence and care	438.28	270	109**	0.96	0.97	0.97	0.066	0.06
Six-factor model (M2) combined competence and trust	353.45	270	24.17**	0.98	0.98	0.98	0.046	0.059
Six-factor model (M3) combined care and trust	388.30	270	59.02**	0.97	0.97	0.98	0.055	0.063
Six-factor model (M4) combined competitive goal and independent goal	344.99	270	15.71**	0.98	0.98	0.98	0.044	0.057
One factor Model (M5)	1802.76	285	1473.48**	0.79	0.81	0.81	0.19	0.17

Notes: Seven-factor model includes cooperative goals, competitive goals, independent goals, social face, government competence, caring and effective regulations; χ^2 is the model chi-square; $\Delta\chi^2$ is the change in model chi-square; NNFI = non-normed fit index; IFI = incremental fit index; CFI = comparative fit index; RMSEA = root mean square error of approximation; SRMR = root mean square residual; ** $p < 0.01$

Table I.
Scale validation–
confirmatory factor
analysis

factor analysis of all the items only explained 31.8 per cent of the total variance. These results suggest that common method variance is not of great concern and thus is unlikely to confound the interpretations of results.

Hypotheses testing

Correlational analyses were used as an initial test of the hypotheses. Structural equation analyses have been considered a powerful way to test mediation effects (Hayduk, 1987). Psychologists and other behavioral science researchers have proposed mediating effects to understand the development of behavior outcomes (Ajzen and Fishbein, 1980; James and Brett, 1984; Stacy *et al.* 1994). Structural equation analyses were used to test that confirmation of social face mediates between goal interdependence and the outcome of confidence in business. The covariance structure analysis of the inter-relationship among these constructs was analyzed using LISREL8 (Jöreskog and Sörbom, 1996).

In addition to evaluating the overall model fit and specific parameter estimates, it is also a common approach to compare nested models to one another statistically so as to identify the best model (Hayduk, 1987). A nested model test was used to evaluate the argument that social face mediates the link between goal interdependence and the outcome variables of government competence, caring and effective regulation. This mediating effects model, also called the hypothesized model, was compared to the direct effects model that posited that goal interdependence impacts outcomes directly. In addition, an alternative model was developed for comparison. Alternative model (A1) was developed based on the argument that goal interdependence and social face affect the outcome variables of government competence, caring and effective regulation. To further test the mediating effects, we provide formal product of coefficients tests for the mediating effects in the structural equation modeling (SEM) (Mackinnon *et al.*, 2002).

Results

Table II shows the means, standard deviations, reliabilities and correlations among the constructs in this study. Zero-order correlations were used for an initial examination of the hypotheses relating cooperative goals, competitive goals, independent goals, social face, government competence, caring and effective regulation. Results provided strong support for *H1* in that to the extent to which government officials and business managers confirm each other's social face, business managers conclude that the government is competent, caring and able to regulate industry. Social face was positively and significantly correlated with government competence, caring, and effective regulation (0.23, $p < 0.01$; 0.19, $p < 0.05$; 0.23, $p < 0.01$).

Variables	Mean	SD	Item	Alpha	1	2	3	4	5	6
1. Cooperative Goals	5.30	1.01	5	0.88						
2. Competitive Goals	3.23	1.10	5	0.81	-0.44**					
3. Independent Goals	2.94	1.20	4	0.86	-0.51**	0.71**				
4. Social Face	5.47	0.84	4	0.84	0.52**	-0.40**	-0.47**			
5. Competence	5.44	0.88	3	0.89	0.20*	-0.08	-0.13	0.23**		
6. Caring	5.36	0.97	3	0.91	0.25**	-0.09	-0.12	0.19*	0.70**	
7. Effective regulation	5.40	0.89	2	0.76	0.20*	-0.10	-0.14	0.23**	0.63**	0.56**

Notes: * $p < 0.05$; ** $p < 0.01$

Table II.
Means, standard
deviations,
reliabilities and
correlations

Results also provided support for *H2*, *H3* and *H4* that the types of goal interdependence affect confirmation of social face. The cooperative goal scale was significantly and positively correlated with social face (0.52, $p < 0.01$), whereas competitive goals and independent goals were negatively and significantly correlated with social face (-0.40 , $p < 0.01$ and -0.47 , $p < 0.01$, respectively).

Structural equation analyses were used to examine possible causal relationships (Table III). The mediating effects and the direct effects models were compared with the full effects model (with both the mediating effects and the direct effects of goal interdependence). Using a standard likelihood ratio-based nested chi-square test for model fit (see, for example, Bollen, 1989; Kaplan, 2009), the difference between the full effects model (least restrictive model) and the mediating effects model was insignificant ($\Delta\chi^2 = 4.55$, $df = 9$; *n.s.*), suggesting that the mediating effects model provides a similar fit as the full effects model. In other words, by imposing restrictions of zero direct effects from cooperative goals, competitive goals and independent goals to government competence, caring and effective regulation does not cause significant deterioration of the model fit. The mediating effects model is, therefore, considered as a better model than the full effects model with respect to the parsimonious consideration. The direct

Model	χ^2	<i>df</i>	$\Delta\chi^2$	NNFI	CFI	IFI	RMSEA	SRMR
<i>Full effects model</i>								
Cooperative goals, competitive goals and independent goals affect social face, government competence, caring and effective regulation; social face affects government competence, caring and effective regulation	329.28	264	–	0.98	0.98	0.99	0.041	0.057
<i>Mediating effects (theorized) model</i>								
Cooperative goals, competitive goals and independent goals affect social face; social face affects government competence, caring and effective regulation	333.83	273	1.15	0.98	0.99	0.99	0.039	0.061
<i>Direct effects model</i>								
Cooperative goals, competitive goals and independent goals affect social face, government competence, caring and effective regulation	332.38	267	9.92*	0.98	0.98	0.98	0.041	0.06
<i>Alternative model (A1)</i>								
Cooperative goals, competitive goals, independent goals and social face affect government competence, caring and effective regulation	383.44	267	17.65**	0.97	0.97	0.97	0.055	0.15

Table III.
Full effects,
mediated, direct
effects and
alternative models

Notes: χ^2 is the model chi-square; $\Delta\chi^2$ is the change in model chi-square; NNFI = non-normed fit index; IFI = incremental fit index; CFI = comparative fit index; RMSEA = root mean square error of approximation; SRMR = root mean square residual; * $p < 0.05$; ** $p < 0.01$

and the alternative models did not have better fit indices than the full effects model and did not fit the data as well as the mediating effects model. Therefore, results of the causal model comparison suggest accepting the mediating effects model.

In addition to the above likelihood ratio-based nested chi-square test, we provide formal product of coefficients tests for the mediating effect in the SEM (Mackinnon *et al.*, 2002). The mediating effects are computed as the product of the coefficients from exogenous variables to the mediating variables (α) and the coefficients from the mediating variables to the endogenous variable (β). We computed the z' test statistic defined by the mediating effect ($\alpha\beta$) divided by its standard error ($\sigma\alpha\beta$). The distribution of the z' test statistic is simulated by MacKinnon *et al.* (1998).

Results of the test for mediating effects are given in Table IV. They provide evidence for significant mediating effects from cooperative goals to government competency, caring and effective regulation via social face. These results provide further support to our theorized mediating effects model.

The path coefficients of the accepted hypothesized model help to explore the findings more specifically (Figure 2). Results indicated that cooperative goals had a significant positive relationship with social face ($\beta = 0.36, p < 0.01$), whereas competitive goals and independent goals both had a negative though not significant relationship with social face ($\beta = -0.14, n.s.$; $\beta = -0.27, n.s.$). Social face significantly affected government competence, caring and effective regulation ($\beta = 0.27, 0.23, 0.30$ respectively, all $p < 0.01$).

Mediated model	1	2	3	4
Path	$(\alpha) \times (\beta)$	Estimated mediating effect	SE of the mediating effect	Test statistic
(1) Cooperative goals \rightarrow social face \rightarrow government competence	0.36×0.27	0.097	0.046	2.13**
(2) Cooperative goals \rightarrow social face \rightarrow caring	0.36×0.23	0.083	0.042	1.96**
(3) Cooperative goals \rightarrow social face \rightarrow effective regulation	0.36×0.30	0.108	0.048	2.21**

Notes: The mediating effect is defined as the product of two path coefficients, i.e. the path between the independent variable and the mediating variable (α), and the path between the mediating variable and the dependent variable (β); the test statistics is derived by dividing column (2) by column (3); the distribution of the test statistics is reported by MacKinnon *et al.* (2002); ** $p < 0.01$

Table IV.
Mediation tests

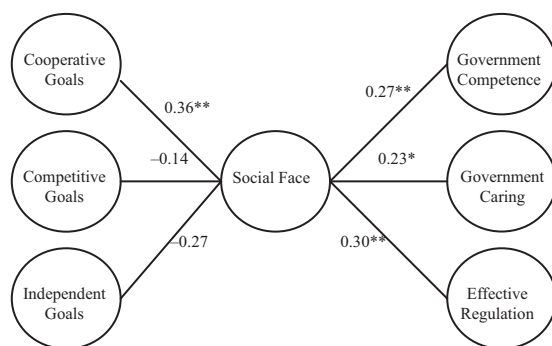


Figure 2.
Path estimates for
the hypothesized
model

caring and effective regulation ($\beta = 0.27, p < 0.01$; $\beta = 0.23, p < 0.05$; $\beta = 0.30, p < 0.01$). These findings on path coefficients provided good support for the study's hypotheses.

In regards to model fit, the mediating effects model had a chi-square of 333.83 with 273 degrees of freedom. The non-normed fit index (NNFI), incremental fit index (IFI) and comparative fit index (CFI) for the model were 0.98, 0.99 and 0.99, respectively. The three fit indices were considered as indicating extremely good model fit, given the usually accepted critical value of 0.90 (Bentler and Bonnett, 1980).

Discussion

Results of this study suggest that businesses do not inevitably capture regulators (Stigler, 1971), but that business and regulators develop a range of relationships, and that there are quality relationships that promote effective regulation (Etzioni, 2009; Thomas *et al.*, 2010). Correlational and structural equation results support the study's use of the theory of cooperation and competition and the concept of mutual confirmation of social face to develop a framework for developing confidence in government. Specifically, findings indicate that to the extent government regulators and businesses conclude that their goals are cooperatively rather than competitively or independently related so that as one succeeds, the other succeeds, they have mutual confirmation of social face with each other. Results also support the value of mutual confirmation of social face to the extent that businesses that develop relationships with governments with mutual confirmation of social face as a foundation, businesses developed confidence in government regulators.

Researchers have argued that trust, which is closely related to confidence, as developed in this paper, is an important component of inter-organizational exchange (Barney and Hansen, 1995). Trust in government is critical to create the environment that political leaders need to succeed and promote a "harmonious" society (Hetherington, 1998). This study documents empirically that relationships are positively related to confidence in government. It also shows the potential of the theory of cooperation and competition to help specify the nature of the relationships between government and business that affect the mutual confirmation of social face of each other. Cooperative goals where government officials and business managers have a vested interest in helping each other perform effectively so that they can all succeed were found to lead to mutual confirmation of social face. Competitive goals and independent goals, on the other hand, were negatively related to social face. Competitive goals and independent goals appear to not develop and even frustrate the development of collaborative relationships between government officials and business managers and confidence in government.

Previous studies suggest that social face concerns are important for collectivist people in Asia (Cocroft and Ting-Toomey, 1994; Kam, and Bond, 2008; Liao and Bond, 2011; Leung and Cohen, 2011; Oetzel *et al.*, 2008) and that they can inhibit the open-minded discussion of diverse views (Kirkbride *et al.*, 1991; Tse *et al.*, 1994). This inability to discuss conflicting ideas openly in turn prevents people understanding each other's position and developing collaborative relationship. However, this study results suggest that social face concerns themselves may not inhibit. When social face was confirmed, partners were found to be willing to strengthen their relationships that in turn helped them develop confidence in each other. Chinese sensitivity to social face by

itself is not a barrier. Indeed, to the extent this sensitivity induces high level of mutual respect, social face concerns can be quite constructive.

These results may have more general significance for the study of cultural values. Traditionally, cultural values have been associated with and used to explain behavior, for example, social face leads to conflict avoidance (Kirkbride *et al.*, 1991; Tse *et al.*, 1994). But it may not just be values but how values are applied within situations that affect behavior (Leung and Cohen, 2011; Morris *et al.*, 1999). Chinese people may value social face but it seems that the effects of social face depend upon its management, that is, the extent that social face is confirmed.

Findings are consistent with recent theorizing on the value of relationships for partnerships (Kale *et al.*, 2000). Researchers have long argued that relationships are very important for business and organizational work in collectivist Asia (Hui *et al.*, 1999). 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 *et al.*, 2002; Lovett *et al.*, 1999). Study results confirm that collaborative relationships can be a foundation for businesses to develop confidence in government.

This study identifies critical aspects of the development of constructive relationships. Mutual confirmation of social face through communicating respect to each other seems to be an important way to characterize the collaborative and integrative relationship that enables the development of confidence in government. In addition, findings indicate that cooperative goals between governments and businesses help them develop confirmation of social face. Although social face has a long history as research issue (Goffman, 1959, 1967), there is need for more evidence to develop our understanding of the role of social face in interaction and the antecedents to its confirmation.

Limitations

The sample and operations, of course, limit the results of this study. The study's data are perceptual and self-reported and, therefore, are subject to biases and may be inaccurate, although recent research suggests that self-reported data are not as limited as commonly expected (Spector, 1992). Using objective data would provide a stronger foundation for the hypotheses. The study's data are also correlational and do not provide direct evidence of causal links between goal interdependence, social face, government competence, caring and effective regulation. Causal inferences about the relationship between variables should be considered tentatively. However, government officials completed measures of goal interdependence and social face, whereas business managers completed the outcome measures of government competence, caring and effective regulation. Developing different sources for the independent and dependent measures should reduce the possibilities of same source method as an alternative explanation of the results.

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. It would be desirable to provide direct experimental verification of the role of goal interdependence and social face on government competence, caring and effective regulation in other government and business partnerships.

Practical implications

In addition to developing theoretical understanding, continued support for the hypotheses can have important practical implications for strengthening relationships between government and business. This study provides empirical evidence that relationships emphasizing cooperative goals can be very useful for mutually beneficial collaboration between government regulators and businesses. To foster cooperative goals, government officials and business managers can together develop a common direction, identity and values, integrated roles, common tasks, personal relationships and shared reward distributions that reinforce cooperative goal interdependence (Hanlon *et al.*, 1994; Li *et al.*, 1999).

Mutual confirmation of social face is becoming increasingly important as government regulators and businesses are pressed to work together to develop industry. Government regulators in interacting with businesses often have the intention to regulate or control their activities. However, studies suggest that a bargaining strategy that conveys an attempt to control creates resistance to compromising and participants who confronted a collaborative bargainer more often reached an agreement, felt more accepted, perceived more cooperative relationship and were more attracted to the other bargainer (Tjosvold, 1978). Results of this study suggest that partners who develop cooperative but not competitive relationships are likely to communicate respect to each other, which in turn helps the business managers conclude that the government is competent, caring and able to regulate industry. These findings were interpreted as reaffirming the value of relationships for collaboration between business and government and the usefulness of the concepts of social face and goal interdependence for understanding how to develop high-quality business–government relationships in China. Future research challenges include understanding how the application of cultural values such as social face affects the dynamics and outcomes of interaction and exploring the extent to which cooperative goals and social face promote trust in governments in the West as well as China.

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Appendix A: Government regulator questionnaire

Cooperative goals

- (1) Our partner and we "swim or sink" together.
- (2) Our partner and we want each other to succeed.
- (3) Our partner and we seek compatible goals.
- (4) Our goals and those of the partner go together.
- (5) When our partner and we work together, we usually have common goals.

Competitive goals

- (1) Our partner structures things in ways that favor their goals rather than our goals.
- (2) Our partner and we have a "win-lose" relationship.
- (3) Our partner and we like to show that they are superior to each other.
- (4) Our partner's goals are incompatible with our goals.
- (5) Our partner gives high priority to the things they want to accomplish and low priority to the things we want to accomplish.

Independent goals

- (1) Our partner likes to be successful through its own individual work.
- (2) Our partner and we work for our own independent goals.
- (3) Our success is unrelated to our partner.
- (4) The partner likes to get its rewards through its own individual work.

Social face

- (1) When the partner and we interact with each other, we show respect to each other.
- (2) When the partner and we interact with each other, we communicate that we believe each is competent.
- (3) When the partner and we interact with each other, we let each other know we see each other as strong.
- (4) When the partner and we interact with each other, we communicate that we see each other as effective.

*Business questionnaire**Government competence*

- (1) The partner is doing a good job.
- (2) The partner is competent enough.
- (3) The partner has the necessary skilled people to carry out its job.

Government caring

- (1) The partner is acting in the public interest.
- (2) The partner listens to concerns raised by the public.
- (3) The partner listens to what ordinary people think.

Effective regulation

- (1) The partner has sufficient rules and regulations to control the operation of the industry.
- (2) The partner adequately regulates the operation of the industry.

About the authors

Alfred Wong (PhD, Sheffield Hallam) is an Associate Professor of Management at Lingnan University, Hong Kong. He has research interests in the areas of leadership, co-operation and competition and supply chain management. He has published research articles in a variety of international journals. Alfred Wong is the corresponding author and can be contacted at: wongsh@ln.edu.hk

Lu Wei (PhD, Shanghai University of Finance and Economics) is an Associate Professor in the School of International and Public Affairs at Shanghai Jiao Tong University, China. His research interests include public finance, public economics and public policy.

Dean Tjosvold (PhD, Minnesota) is Henry Y.W. Fong Chair Professor of Management, Lingnan University. In 2005, he was elected to the Academy of Management Board of Governors. He has published 200 articles, 30 book chapters and 100 conference papers on managing conflict, cooperation and competition and other management issues.

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