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## Influence of functional conflicts on marketing capability in channel relationships

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## ABSTRACT

Extending the research on the positive effects of functional conflicts, this study examines how functional conflicts influence innovation capability and responsive capability in channel relationships by triggering inter-organizational knowledge sharing. The moderating effects of conflict frequency and relationship quality on the relationships between functional conflict, knowledge sharing, and capabilities are also explored. Based on a questionnaire survey of 152 small- and medium-sized enterprises in China, the results show that (1) functional conflict can stimulate inter-organizational knowledge sharing, but the frequency of conflict negatively moderates this relationship; (2) knowledge sharing has a mediating effect on the relationship between functional conflict and marketing capability; and (3) relationship quality positively moderates the relationship between functional conflict and knowledge sharing, but negatively moderates the relationship between knowledge sharing and innovation capability. These findings broaden the theoretical scope of conflict theory and refine the theoretical framework of channel conflict. This study also has significant practical implications for organizations seeking to effectively guide and resolve conflicts.

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## 1. Introduction

Channel conflict, an inevitable issue in channel relationship management (Dwyer, Schurr, & Oh, 1987), can be either a constructive or destructive variable in long-term relationships (Anderson & Weitz, 1992; Bucklin & Sengupta, 1993; Deutsch, 1969; De Dreu & Weingart, 2003; Moorman, Zaltman, & Deshpande, 1992; Grayson & Ambler, 1999; Anderson & Jap, 2005). Researchers classify conflicts as either functional or dysfunctional (e.g., Jehn, 1997): functional conflicts are generally task conflicts that can result in benefits to the team; dysfunctional conflicts are relationship conflicts that are harmful to team performance (Loughry & Amason, 2014). Functional conflicts promote channel relationships by motivating positive effects (e.g., innovation, improved decision-making quality, productivity, and value co-creation) (Amason, 1996; De Dreu, 2006; Mele, 2011; Skarmeas, 2006) and by impeding the “dark side” of long-term relationships, such as their tendency to hinder innovation and inhibit the ability to discover problems (Anderson & Jap, 2005; Grayson & Ambler, 1999; Mooi & Frambach, 2012; Moorman et al., 1992). Therefore, examining the mechanisms of functional conflict in long-term relationships has attracted the attention of management scholars. Accordingly, Webb and Hogan (2002) classifies the consequences of functional conflict as either relationship-related (e.g., satisfaction) or performance-related (e.g., productivity), the two most important outcome variable groups in channel marketing

(Anderson & Narus, 1990; Brown, Lusch, & Nicholson, 1996; Pantelia & Sockalingam, 2005).

However, contemporary studies pay more attention to minimizing negative conflicts in buyer-seller relationships (e.g., Mo, Booth, & Wang, 2012) than to how, or through what mechanisms, conflict might yield functional benefits to channel members at the inter-organizational level. As a result, there are still a number of gaps in the literature on conflict. First, few studies specifically examine the frequency of conflicts, which is a key factor affecting the functionality of conflicts (Hunt & Dodds, 2015). In fact, studies should examine different dimensions, including the level, frequency, and importance of conflicts (Magrath & Hardy, 1988), as the failure to take all of the influential factors into consideration results in an incomplete understanding of the functionality of conflicts. It is vital to determine which factors affect the threshold between functional and dysfunctional conflict (Winsted & Hunt, 2015). Second, most of the prevailing functional conflict research focuses on performance at the intra-organizational level (e.g., organizational performance, productivity; Mele, 2011) rather than at the inter-organizational level, and few studies focus on how to take advantage of functional conflict in channel relationships at the inter-organizational level. Third, most studies draw conclusions from theories or experience; few conduct empirical analyses to verify the positive influence of conflict on inter-organizational performance (Skarmeas, 2006), and the extant empirical support for functional conflict is inconsistent (Loughry & Amason, 2014). Indeed, few empirical studies identify how conflict in a relationship can help members to improve their effectiveness and eventually achieve a competitive advantage. It is essential to uncover the mechanism through which conflict

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influences organizational performance. Thus, this study analyzes the influence of conflict on marketing capabilities, which are extremely important to an organization's sustainable competitive advantage (Chang, Eun Park, & Cha, 2010; Vorhies & Morgan, 2005).

Therefore, this study asks the following questions. What is the mechanism through which conflict positively influences marketing capability? Under what conditions does conflict positively affect marketing capability? Answering these questions has significant practical implications for enterprises' ability to implement effective conflict management, positively drive channel conflict, motivate marketing capability, and continuously improve their competitiveness in the pursuit of relationship marketing.

## 2. Theoretical background

### 2.1. Channel conflict

Channel conflict appears in many types of transaction relationships (Dwyer et al., 1987). According to Gaski (1984), channel conflict occurs when one channel member perceives that the behavior of another channel member might threaten his/her goal achievement. Conflict refers to "the perceived feeling of pressure, tension and hostility of a channel member aroused by another member" (Lusch, 1976). The possibility of conflict occurring depends on the degree of disagreement in objectives and different perceptions of interdependence between two parties (Moore, 1989). In channel marketing, if an enterprise lacks an effective channel management strategy, partners may feel confused and the competition between the supplier and channel members will gradually cause inter-channel conflict (Webb & Hogan, 2002).

Conflicts exist in many forms, ranging from mild disagreements to severe disputes (Brown & Day, 1981; Pondy, 1967). Lusch (1976) identifies two dimensions of conflict: frequency and intensity (level) of conflict. In terms of the intensity of conflict, studies show that conflict at a certain level will have a positive effect on channel efficiency, but above or below that level, it will have either no or negative effects on efficiency (Boulding, 1965; Rosenbloom, 1973; Winsted & Hunt, 2015). Other studies determine whether conflict is functional or dysfunctional mostly by its outcomes (e.g., Anderson & Narus, 1990; Balabanis, 1998; Morgan & Hunt, 1994). Functional conflict usually means a cognitive conflict that yields positive outcomes to all of the channel members (Dickinson, 2013). Functional conflict can improve production efficiency and lead to a win-win situation for members (Anderson & Narus, 1990) and its harmonious settlement can improve the mutual creation of value (Mele, 2011). Thus, in our study, functional conflict refers to (1) conflict that brings long-term positive benefits to the channel members (Anderson & Narus, 1990; Skarmeas, 2006); and (2) conflict that is within the threshold that generates positive effects on the channel relationship. Extant studies of functional conflict pay little attention to the frequency of conflict; this study argues that a high frequency of conflict has negative effects on channel conflict.

Although studies on channel conflict are paying increasing attention to the positive effects of channel conflict on relationships (see Table 1), most research conclusions draw on the basis of theories or experience

and few studies have empirically verified the positive influence of conflict (Skarmeas, 2006). To fill this gap, this study focuses on how functional conflict affects inter-organizational knowledge sharing and improves marketing capability. Furthermore, this study extends the examination of functional conflict to the effects of conflict frequency on outcomes.

### 2.2. Knowledge sharing

Knowledge sharing is a process through which organizations exchange information and specialized knowledge (Zaheer & Venkatraman, 1995). Knowledge sharing can occur in different layers. At the cross-organization layer, according to Tang, Mu, and MacLachlan (2008) strategic management theory of technical transfer, knowledge sharing can take place within both formal inter-organizational relationships and through informal interactions and channels.

Conflict experience exerts different influences on behavior (Pondy, 1967), and knowledge sharing is one type of salient subsequent behavior that affects organizational performance. Extant studies suggest that when faced with different viewpoints caused by functional conflict, members tend to settle the disagreement by re-evaluating their assumptions, searching for information (Sandy, Boardman, & Deutsch, 2006), exchanging ideas, and sharing task-related knowledge (Chen, Sharma, Edinger, Shapiro, & Farh, 2011; Pantelia & Sockalingam, 2005). Knowledge sharing is thus a form of group correlation consensus, which provides access to knowledge utilization and conveniently establishes and uses knowledge networks (Hogel, Parboteeah, & Munson, 2003).

Knowledge sharing can generate positive externalities and make it possible for an organization to acquire knowledge overflow from its cooperative partners (Lorenzoni & Lipparini, 1999). Sveiby (2001) indicates that inter-organizational knowledge sharing can improve the capabilities of all of the parties and promote their abilities to generate new knowledge. Mohr and Sengupta (2002) argue that knowledge sharing can enable an organization to respond quickly to changes, to innovate, and to create success. Knowledge sharing can have a positive influence on organizational performance through the exchange of implicit and explicit knowledge (Nonaka & Takeuchi, 1995). The knowledge-dispensing party provides useful knowledge for the receiving party, resulting in a common expectation (Zhang, Cavusgil, & Roath, 2003) that helps to achieve effective cooperation between organizations (Madhok & Tallman, 1998). Joshi and Sharma (2004) show that sharing relevant knowledge of the production cost structure and selection allows cooperative partners to identify organizational defects, thus helping to make proper and effective adjustments and project transfers.

### 2.3. Marketing capability

According to the resource-based theory, a firm's competitive advantage relies on it having resources and capabilities that are "rare, valuable and difficult to imitate" (Barney, 1991; Dierickx & Cool, 1989). Marketing capability is the integration process through which an enterprise collects and uses knowledge and skills to manage internal resources

**Table 1**  
Overview of positive outcomes of inter-organizational conflicts.

Outcome	Authors	Functional benefits of conflict	Context
Relationship-related	Morgan & Hunt, 1994 Cahill et al., 2010	Increasing trust by increasing functionality of conflict The level of conflict positively moderates the effects of both price satisfaction and service satisfaction on customer loyalty	Retailers and suppliers Logistics buyers and sellers
Performance-related	Anderson & Narus, 1990 Skarmeas, 2006 Mele, 2011 Cheng et al., 2011	Functional conflict increases productivity Functional conflict enhances importers' future purchase intentions Enables value co-creation in project networks Dysfunctional conflict dampens decision making and information sharing	Distributor and manufacturer Exporters and importers Project partners Manufacturers and distributors

and adapt to the external environment (Su, Tsang, & Peng, 2008; Teece, Pisano, & Shuen, 1997). Recent studies identify the marketing capabilities that generate the market knowledge give firms better market responsiveness and contribute to sustainable competitive advantages (Barrales-Molina, Martínez-López, & Gázquez-Abad, 2014; Bruni & Verona, 2009; Morgan, 2012).

Chang, Eun Park et al. (2010) define marketing capability as a repeatable mode capable of effectively implementing relevant activities to meet market demands. Enterprises can achieve competitive advantages by developing key marketing capabilities (Day & Wensley, 1988; McKee, Varadarajan, & Pride, 1989). In addition, by combining internal resources and external information, marketing capability has a critical influence on the reintegration of competitive resources (Su et al., 2008).

Slotegraaf and Dickson (2004) indicate that the ability to predict and respond to market evolution significantly influences enterprise performance. Following this principle, Gu, Hung, and Tse (2008) examine the corporate responsive capability of channel members, as it is a key competence in markets with high environmental uncertainties such as China. Responsive capability is the capability of an organization to monitor and respond quickly and positively to market changes (Nayyar & Bantel, 1994), and it is one of the key components of marketing capability. In addition, firms with higher rates of innovation are better able to adapt to uncertain environments and gain competitive advantages (Hurley & Hult, 1998). The ability to innovate new value for customers is one of the strategic domains of marketing capabilities (Day, 2011). Innovation capability refers to the capability of an organization to successfully propose and implement new ideas, flows, or products (Brezink & Hisrich, 2014). To some extent, they reflect the core capability of the organization to respond to a greatly changing market environment (Day, 2011).

Knowledge sharing and learning activities can generate marketing capability as well as other capabilities (Easterby-Smith & Prieto, 2008). Eisenhardt and Martin (2000) propose that learning is a dynamic process of resource integration and recombination that combines experiments and consciously repeated exercises for the purpose of improving organizational performance. To improve marketing capability, employees must repeatedly apply their knowledge and skills to solve market problems (Vorhies & Morgan, 2005), and make repeated efforts to improve market resources with a useful flow line. Knowledge communication and learning involves the intra-organizational creation, dispersion, and communication of knowledge, and the integration of such knowledge into the firm's commercial strategy and management practice (Kim, 1998; Sinkula, 1994).

To summarize, the literature on marketing capability indicates that the subject is closely correlated with organizational performance and organizational knowledge sharing. Can knowledge sharing caused by conflict improve organizational marketing capability? Which factors influence the positive effect of conflict on organizational marketing capability? These questions are of great importance for conflict management and are worthy of investigation.

### 3. Logical deduction of hypotheses and theoretical model building

This study explores the effects of functional conflicts on capability through inter-organizational knowledge sharing, and develops an input-process-output model of the inter-organizational learning relationship (McGrath, 1984). According to inter-organizational learning theory, the study is concerned with the transfer of knowledge that takes place during active exchanges between key exchange partners (Lane & Lubatkin, 1998), some types of stimuli, such as exerting pressure on members, may promote knowledge sharing in the network and ultimately enable organizations to yield new knowledge and capabilities (Dyer & Nobeoka, 2000; Lane & Lubatkin, 1998). Functional conflict acts as a stress source that drives knowledge sharing. Knowledge sharing, as one of the key variables of organization

learning (Sita Nirmala Kumaraswamy & Chitale, 2012), is beneficial to the development of innovation and responsiveness (Mohr & Sengupta, 2002).

Accordingly, channel conflict helps channel members identify new issues, stimulates managers' motives for knowledge sharing, and changes their original knowledge sharing attitude. At the same time, conflict can bring channel members new ideas and new troubleshooting horizons, as it changes the nature of knowledge, transforming it, for instance, from implicit to explicit. Functional conflict ensures that knowledge sharing among channel members influences factors at the organizational motivation and knowledge features levels, which further improves inter-organizational knowledge sharing. Improvements in the level of knowledge sharing lead to improvement in organizational marketing capability. However, the frequency of conflict can also influence the functionality of conflict. Too much conflict during an interaction could be harmful to the knowledge sharing process, or could even end the relationship (Cahill, Goldsby, Knemeyer, & Wallenburg, 2010). Furthermore, the level of knowledge sharing depends on the degree of cooperation and dependence among knowledge subjects (Zarraga & Bonache, 2003). Relationship quality is a prerequisite for the promotion of mutual learning and knowledge sharing (Selnes & Sallis, 2003). Inter-firm interactions are vital sources of new ideas and knowledge generation (Dyer & Singh, 1998). Thus, relationship quality plays a moderating role in this process, which enhances the influence of functional conflict on knowledge sharing. Nevertheless, information and knowledge flow within a closed network is likely to be homogeneous (Rindfleisch & Moorman, 2001). Homogeneous information inhibits an organizations' pursuit of innovativeness and adaptability, whereas broader knowledge can enable firms to create innovation and to better respond to environmental change (Fang, 2008; Torrance, 1988). Therefore, relationship quality negatively moderates the association between knowledge sharing and capabilities.

#### 3.1. Relationship between functional conflict and knowledge sharing

Functional conflict may foster the free expression of channel members' opinions and constructively challenge others' ideas, beliefs, and assumptions (Baron, 1991; Massey & Dawes, 2007; Schwenk, 1986). In the conflict process, both parties focus on judging and solving such divergence, so as to effectively achieve their common goal. According to De Dreu (2006), information exchange and mutual troubleshooting are critical functions of functional conflict. From the perspective of organization theory, a slight objection or minor conflict can stimulate an organization's search for more information to solve the problem (Nemeth & Rogers, 1996), and motivate the organization to seek and share knowledge. From the perspective of knowledge seeking, a long-term stable channel relationship provides the conditions for channel members to research information at a lower cost (Granovetter, 1973; Krackhardt, 1992). Such an information research process allows the mutual exchange of information and specialized knowledge. Thus, channel conflict leads members to reevaluate their assumptions, correct their mistakes, and consider issues from multiple perspectives (Schulz-Hardt, Jochims, & Frey, 2002, chapter 5). Functional conflicts encourage both parties to enhance mutual trust through effective communication or to share relevant task information to solve problems (De Dreu & Van Vianen, 2001). As the core of functional conflict lies in the differences between the parties' judgment standards and viewpoints, it can transform implicit knowledge into explicit knowledge and enable relationship members to share and exchange more information and generate more ideas (Bantel & Jackson, 1989). Furthermore, functional conflicts can inhibit the knowledge redundancy, which exists in vertical alliances (Cambra-Fierro, Florin, Perez, & Whitelock, 2011), thus provide a strong information foundation for effective inter-organizational knowledge sharing, reaching a consensus, and forming relationship memories.

**H1.** Functional conflict has a positive influence on inter-organizational knowledge sharing.

The functionality of channel conflict depends on both the level and frequency of conflicts (Moore, 1989). Conflict is only functional when it is within certain levels and provides the amount of information channel members need to solve relevant problems under coordination (De Dreu, 2006; Rosenbloom, 1973; Winsted & Hunt, 2015). As the frequency of conflict increases, members develop a “cumulative perception” of the interaction that negatively affects members' satisfaction and eventually leads to a decision on whether to continue or end the relationship (Cahill et al., 2010). Brown, Lusch, and Smith (1991) argue that channel conflict is unlikely to be resolved completely in a single episode, and it persists and affects subsequent interactions. Eliashberg and Michie (1984) find that a member's perceived frequency of disagreement has significant associations with another member's perceived intensity of disagreement. Once the intensity of conflict exceeds a certain level, it becomes dysfunctional and dampens decision making and information sharing (Cheng, Wang, & Zhang, 2011). In such cases, the level of knowledge sharing reduces due to members' dissatisfaction, even though functional conflict motivates knowledge sharing by enhancing problem recognition. Thus, the higher the frequency of functional conflict, the higher the likelihood that functional conflict will hinder the knowledge sharing process of organizational learning.

**H2.** Conflict frequency negatively moderates the relationship between functional conflict and inter-organizational knowledge sharing.

### 3.2. Knowledge sharing and marketing capability

Knowledge is the source of an organization's value creation and innovation (Dyer & Singh, 1998). According to Nonaka and von Krogh (2009), knowledge sharing is closely related to organizational learning. Knowledge sharing serves as a means for an organization to acquire knowledge and it leads to changes in organizational behavior and performance (Sita Nirmala Kumaraswamy & Chitale, 2012). Through knowledge sharing and effective learning, members can improve their behavior, innovation capabilities, and, ultimately, the efficiency of the organization.

“An organization can improve its knowledge capital and performance by effective learning process (including exploration, development, and both implicit and explicit knowledge sharing) and by utilization of proper technological and cultural environment” (Kay, 1993). Knowledge obtained from different members with different internal networks is much richer than knowledge obtained from a single member (Inkpen & Tsang, 2005). A wide range of knowledge brings greater flexibility and more ideas with which enterprises can respond to market challenges. Knowledge sharing provides high-quality and timely information about relationship members, allowing enterprises to predict and handle environmental changes in a more focused way (Zhang et al., 2003). This is crucial for reducing an organization's vulnerability to environmental threats (Gu et al., 2008; Jaworski & Kohli, 1996).

**H3a.** : Knowledge sharing is positively related to channel members' responsive capability.

During the process of knowledge sharing, members actively explore alternative methods, challenge the original hypotheses, seek different points of view, evaluate alternatives, and reflect these thoughts in their actions (Van der Vegt & Bunderson, 2005). By going through functional conflict, the process of knowledge sharing can also provide new methods and perspectives. This encourages channel members to gather more information and new skills during the learning process and to develop new constructive interaction modes (Kasl, Marsick, & Dechant, 1997). Thus, the extraction and creation of new knowledge from

knowledge sharing has a positive influence on organizational innovation capability.

**H3b.** : Knowledge sharing is positively related to channel members' innovation capability.

### 3.3. Influence of relationship quality on the relationships between functional conflict, knowledge sharing, and marketing capability

If both parties in a relationship believe that there will be no hurt, exploitation, or danger, the members will be more inclined to positively share information (Morgan & Hunt, 1994) and to give up short-term benefits. Selnes and Sallis (2003) suggest that trust can promote knowledge sharing and learning. First, higher trust could lead channel members to perceive conflict as functional, as cooperation and communication between channel members can enhance the functionality of conflicts (Morgan & Hunt, 1994). That is, members with a higher level of relationship quality are more sensitive to functional conflict. As a result, functional conflict will exert a stronger stimulus on members, and they will share more knowledge. Second, with regards to the depth of shared knowledge, members with higher levels of trust are more willing to trade off the short-term benefits than other members, and are more willing to share sensitive information and promote constructive and creative exchanges to achieve a win-win situation for both parties (Selnes & Sallis, 2003). Consequently, the level of knowledge sharing between members experiencing the same level of conflict is higher when there is a higher relationship quality. Finally, when managing disagreements and conflicts, strong social ties allow members to overcome communication barriers, complement each other, and develop new knowledge (Nohria & Ghoshal, 1997), and enable them to improve their levels of mutual adaption and understanding (Stewart, 2001). Thus, knowledge sharing between members is easier when the relationship is of higher quality. As a result, channel members with better relationships will facilitate the functional conflicts that encourage members to develop a richer information structure, more information, and better knowledge-sharing performance (Lee, Chen, Kim, & Johnson, 2008; Luo, Griffith, Liu, & Shi, 2004; Seyyedeh, Daneshgar and Aurum, 2009).

**H4.** Relationship quality positively moderates the relationship between functional conflict and knowledge sharing.

In a high-quality relationship, members are very satisfied with the relationship (Crosby, Evans, & Cowles, 1990; Rauyruen & Miller, 2007) and thus form a close relationship network. As channel members in high-quality relationships are unwilling to break existing relationship rules, they tend to exchange knowledge, but create little new knowledge (Cambra-Fierro et al., 2011). Furthermore, members in a closed network rarely access any new information or ideas (Granovetter, 1973), leading to the loss of innovation and objectivity among channel members. This may cause their relationship behavior to become stiff and thus inhibit innovation (Leonard, 1992). According to Prahalad and Hamel (1994), sticking to original business assumptions about markets hinders organizations' search for unconventional commercial opportunities and inhibits their innovation capabilities. Put simply, when members have no new knowledge to exchange, or when their information lacks new elements, the result is old-fashioned or conformist ideas. This reduces the utilization efficiency of new knowledge, and ultimately reduces the innovation capability and responsive capability of organizations (Grayson & Ambler, 1999; Moorman et al., 1992). As a result, even if there is a high level of knowledge sharing, members in a high-quality relationship hardly improve their innovation capability, as they acquire little new knowledge or new ideas through the relationship. Homogeneous market information gained from a high-quality relationship makes the firm less flexible in responding to environmental change (Fang, 2008). Thus, higher relationship quality is negatively associated

with the positive influence of knowledge sharing on innovation capability and responsive capability.

**H5a.** : Relationship quality negatively moderates the relationship between knowledge sharing and innovation capability.

**H5b.** : Relationship quality negatively moderates the relationship between knowledge sharing and responsive capability.

## 4. Research methods

### 4.1. Sample selection and data collection

To reflect the importance of channel conflict and to investigate its influence on the learning process, this empirical study selects medium- and small-sized enterprises involved in distribution channels (manufacturer-dealers/retailers/wholesalers) as survey participants. This study collects the participants' recollections of expressed disagreements in the measurement of conflicts because previous conflict is the basis for current and future conflict, making this an effective means of studying conflict (Pondy, 1967). The questionnaires reach participants both by post and in person from the list of enterprises provided by the author's relationship network. This study applies the principle of simple random sampling for selection. First, sixty questionnaires from the pilot study, with response and effective completion rates of 100%, help to refine and optimize the questionnaire items according to the validity and reliability test results, in combination with the feedback and suggestions. In the field survey stage, of 300 questionnaires, there are 182 questionnaire returned, giving a response rate of 60.7%. In which, there are 152 valid questionnaires, with a relatively high effective completion rate of 83.5%.

To reduce the common method bias, this empirical study adapts Podsakoff, MacKenzie, Lee, and Podsakoff's (2003) suggestions for design control, process control, and statistical control (Chang, Van Witteloostuijn, & Eden, 2010). For design control, first, the item constructs does not appear any terms that respondents might find ambiguous or unfamiliar (Lindell & Whitney, 2001; Podsakoff et al., 2003). Moreover, this study develops questionnaire based on a complex model consisting of other unmentioned variables (such as conflict resolution strategies, network closure, organizational inertia, and so on) in this study. The order of the questionnaire items appear randomly with some other variables, along with the main effects in this study. This approach helps to avoid the respondent raters' cognitive maps of respondents (Harrison, McLaughlin, & Coalter, 1996). For process control, first, the samples are from different sources to select interviewees with different roles in channel marketing (e.g., manufacturers, suppliers, buyers; see Table 2) in two provinces of Southwestern China. The respondents' responses are anonymous and confidential in order to encourage them to participate in the survey comfortably and honestly. Second, the sample size develops by adopting the snowballing sampling technique. Third, the survey period was from May to July 2015. Finally, the questionnaire includes reverse scoring items to reduce bias. For

statistical control, this study conducts a single factor analysis by entering all of the variables together with no rotation. The composition of the first level is 28.472%; as this is less than the recommended 50%, the level of common method bias in this study is acceptable.

### 4.2. Measurement of variables

Functional conflict adapts the measures from the work by Rawwas, Vitell, and Barnes (1997), in combination with the relevant research of Thomas and Schmidt (1976) and Pondy (1967) on functional conflict. Conflict frequency follows the conceptualization of conflicts by Amason (1996). Knowledge sharing adapts the measures from Fang, Palmatier, and Evans (2008) and Wu and Lin (2013). Innovation capability adjusts the measures from a study by Mooi and Frambach (2012). Responsive capability adapts from Gu et al. (2008), and the measurement of relationship quality follows Crosby et al. (1990).

## 5. Data analysis and hypothesis testing

### 5.1. Reliability and validity analysis

According to the analysis results of measurement reliability and validity via SPSS 20, the Cronbach's alpha values are above 0.8, the KMO values are above 0.5 and the CR values are above 0.7 for all of the variables, indicating that the measurement has good reliability and validity (see Table 3). Table 2 presents the descriptive statistics of the sample.

### 5.2. Hypothesis testing

This empirical study uses Partial Least Squares (PLS) software to test the hypothesis. PLS is a type of causality modeling approach based on regression and aimed at identifying the maximum endogenous explanatory variable and explanatory variance (Hair, Ringle, & Sarstedt, 2011). This study uses Structural equation modeling software, Smart PLS 3.0, to estimate and test the path coefficients, the explanatory power, and the relationships between the variables in the structural model. Table 4 and Fig. 2 show the path coefficients, significance levels, and results of the hypotheses testing. (See Fig. 1.)

The results of the mediating effect of knowledge sharing are shown in Table 4. The relationship between functional conflict and knowledge sharing (Model 1) is significant ( $\alpha_1 = 0.607, t = 8.731$ ), indicating a significant positive effect of functional conflict on knowledge sharing. Thus, H1 is supported. The relationship between knowledge sharing and innovation capability is significant ( $\alpha_3 = 0.421, t = 4.470$ ), thus H3b is supported. In Models 2a and 4a, the path coefficient of the relationship between functional conflict and innovation capability decreases from 0.333 ( $t = 3.800$ ) to 0.033 ( $t = 0.265$ ), due to the influence of knowledge sharing. Moreover, the  $R^2$  value of the model increases from 0.122 to 0.351. Together, these results indicate that knowledge sharing plays a full mediating role in the positive relationship between functional conflict and innovation capability. The relationship between knowledge sharing and responsive capability is significant

**Table 2**  
Descriptive statistics of the sample.

Variable	Item	Number	Percentage	Variable	Item	Number	Percentage
Gender	Male	86	56.6	Age	25 years old or below	6	3.9
	Female	66	43.4		26–35 years old	101	66.4
Occupation	Manager	112	73.7		36–45 years old	41	27.0
	Director	2	1.3		46–55 years old or above	4	2.6
	Self-employed	3	2.0	Enterprise nature	State-owned	66	43.4
	Others	35	23.0		Private	41	27.0
Industry type	Dealer	50	32.9		Private	19	12.5
	Manufacturer	57	37.5		Foreign	18	11.8
	Supplier	38	25.0		Joint venture	3	2.0
	Others	5	4.6	Others	5	3.3	

**Table 3**  
Reliability, Validity, and Combined Reliability of Variables.

Variable	Cronbach's alpha	KMO	CR
Functional conflict	0.820	0.709	0.893
Conflict frequency	0.828	0.708	0.825
Knowledge sharing	0.899	0.898	0.923
Innovation capability	0.818	0.718	0.939
Responsive capability	0.878	0.734	0.878
Relationship quality	0.925	0.922	0.916

( $\alpha_5 = 0.489, t = 5.363$ ), suggesting that H3a is supported. In Models 2b and 4b, the path coefficient of the relationship between functional conflict and responsive capability decreases from 0.480 ( $t = 5.963$ ) to 0.3273 ( $t = 3.011$ ), due to the influence of knowledge sharing. Moreover, the R<sup>2</sup> value of the model increases from 0.235 to 0.295. Together, these results indicate that knowledge sharing plays a partial mediating role in the relationship between functional conflict and responsive capability.

**6. Results**

This empirical study analyzes the mechanisms through which conflict improves the knowledge sharing behavior of cooperative partners and further improves the organizational marketing capability within the long-term relationships of enterprise and channel partners. The data analysis of this study (see Fig. 2) provides following conclusions.

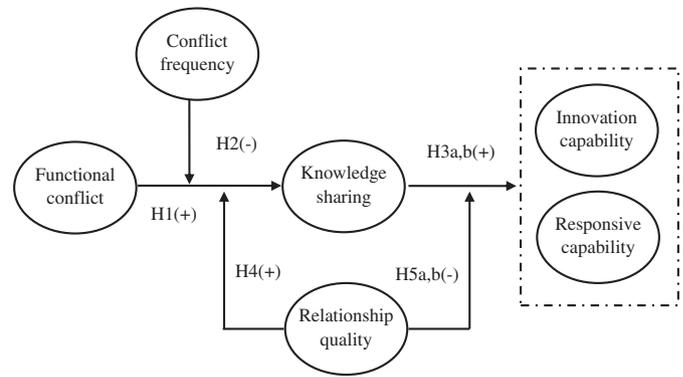
First, functional conflict has a significant influence on the knowledge-sharing behavior of channel members. These results show that channel members with stronger perceptions of functional conflict engage in more obvious knowledge-sharing behavior ( $\beta_1 = 0.493, t = 4.376$ ). Within this process, the frequency of functional conflict affects knowledge sharing ( $\beta_2 = -0.249, t = 2.518$ ), indicating that the positive influence of functional conflict on knowledge sharing weakens when the frequency of conflict is very high.

Second, knowledge sharing has a positive influence on marketing capability: it is positively related to an organization's innovation capability ( $\beta_{3a} = 0.375, t = 3.655$ ) and responsive capability ( $\beta_{3b} = 0.346, t = 3.667$ ). At the same time, knowledge sharing plays a mediating role in the relationship between conflict and marketing capability: it partially mediates the relationship between conflict and responsive capability, and fully mediates the relationship between conflict and innovation capability. This finding indicates that functional conflict improves the innovation and responsive capabilities of channel members by facilitating knowledge-sharing behavior among channel members.

Third, relationship quality has a two-way moderating effect on the relationship between conflict and marketing capability. This moderating effect varies across different stages of improvement in knowledge sharing and organizational capability. When the relationship quality is strong, the effect of functional conflict on knowledge sharing is strong ( $\beta_4 = 0.130, t = 1.943$ ). Conversely, when the relationship quality is strong, the influence of knowledge sharing on innovation capability is weak ( $\beta_{5a} = -0.180, t = 2.460$ ), supporting H5a. Thus, it can be concluded that relationship quality acts as a contractionary force on the relationship between conflict and organizational capability. This result

**Table 4**  
Mediating effect of knowledge sharing.

Independent variable	Dependent variables						
	Knowledge sharing Model 1	Innovation capability			Responsive capability		
		Model 2a	Model 3a	Model 4a	Model 2b	Model 3b	Model 4b
Functional conflict	0.607 (8.731***)	0.333 (3.800***)		0.033 (0.265)	0.480 (5.963***)		0.278 (2.790***)
Knowledge sharing			0.421 (4.470***)	0.398 (9.128***)		0.489 (5.363***)	0.327 (3.011***)
Uncertainty	0.024 (0.300)	0.110 (1.001)	0.082 (0.810)	0.078 (0.729)	0.082 (0.977)	0.107 (1.294)	0.074 (0.895)
Degree of dependence	-0.094 (1.397)	0.025 (0.275)	0.044 (0.518)	0.042 (0.474)	-0.029 (0.440)	0.031 (0.415)	0.000 (0.005)
R <sup>2</sup>	0.373	0.122	0.194	0.351	0.235	0.249	0.295



**Fig. 1.** General conceptual model. Notes: Control variables: degree of dependence; market uncertainty; and dysfunctional conflicts.

( $\beta_{5b} = -0.026, t = 0.393$ ) does not support H5b. The moderating effect of relationship quality on the association between knowledge sharing and responsive capability is not significant.

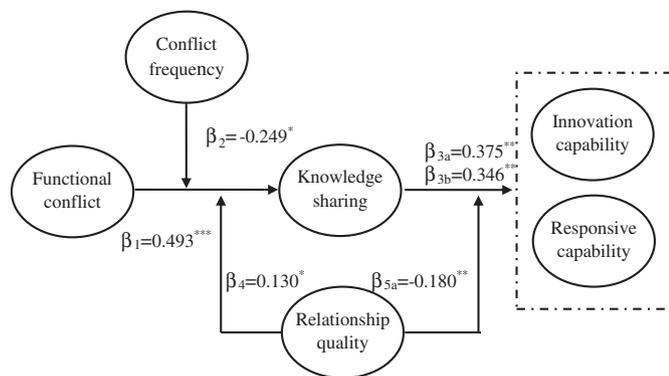
**7. Discussion and implications**

*7.1. Theoretical contributions*

This empirical study analyzes how functional conflict influences marketing capability by influencing knowledge-sharing behavior among channel members within long-term inter-organizational relationships. This study makes three distinct contributions to the literature on industrial marketing and service business.

First, this empirical study provides evidence of the positive effects of functional conflicts in channel relationships. By demonstrating the influence of conflict frequency on the relationship between functional conflict and knowledge sharing, this article extends the literature on the positive effects of functional conflict. Lusch (1976) argues that conflicts have two dimensions: frequency and intensity (level). To be functional, conflicts must be at a certain level (Boulding, 1965; Rosenbloom, 1973; Winsted & Hunt, 2015). This study shows that the stronger the perceived functional conflict, the stronger the motivation and knowledge-sharing behavior of the channel members. Acquiring such shared information improves marketing capability. This finding is consistent with the consensus in the literature that conflict is not always harmful. However, extant studies focus on the influence of the level of conflict on the relationships and neglect another feature of conflict: conflict frequency. The results show that as the conflict frequency increases, the positive effects of the functional conflicts diminish. Our finding helps clarify when conflicts have a positive effect on organizations.

Second, this study contributes to the literature on knowledge sharing in channel relationships, by showing that it leads to changes in organizational behavior and performance (Sita Nirmala Kumaraswamy & Chitale, 2012). The finding contributes to the literature on knowledge-based theory that examines the influence of knowledge sharing on organizational performance through capabilities (Sita Nirmala Kumaraswamy & Chitale, 2012). From the perspective of knowledge-



**Fig. 2.** Conceptual model with results. Notes: \*\*\* indicates significance below the 0.01 level; \*\* indicates significance below the 0.05 level; \* indicates significance below the 0.1 level.

based theory, this article not only discusses conflict as a driving factor of knowledge sharing but also examines the influence of knowledge sharing on organizational capabilities. This result shows that knowledge sharing could mediate the positive influence of conflict on marketing capability. Functional conflict has a positive effect on organizational capabilities because it motivates both parties in a channel relationship to share knowledge. Although previous studies emphasize the importance of knowledge sharing for organizational performance, this argument does not apply in intra-organizational relationships. This conclusion highlights the role of knowledge sharing in the positive effects of functional conflict, and contributes to the literature on knowledge sharing in channel relationships.

Finally, this empirical study further explores that relationship quality has a bidirectional effect on functional conflict. Relationship marketing studies show that relationship quality has a positive influence on organizational capability. However, some scholars argue the opposite, especially social network studies that find a negative influence of strong ties on organizational information acquisition and utilization (Uzzi, 1997; Gargiulo & Benassi, 2000). This study reveals that relationship quality positively moderates the relationship between conflict and knowledge sharing, but negatively moderates the relationship between knowledge sharing and innovation capability. Based on these findings, this study further distinguishes special cases of the contractionary effect of relationship quality on innovation capability. Nevertheless, relationship quality does not have a significant moderating effect on responsive capability. This insignificant effect may result from the opposing forces of relationship quality. Presumably, homogeneous market information from strong ties makes firms less flexible in responding to environmental change. Simultaneously, a high-quality relationship facilitates the flow of information and knowledge, and members are likely to gain updated market information and share it with each other in a cooperative way. To some extent, this cooperative relationship can lead to quick responses to market change. These mechanisms might work in opposition to each other, causing the insignificant result.

## 7.2. Managerial implications

This study has important practical implications for channel managers of firms who wish to take advantage of functional conflicts. First, the result finds not only that the level of conflict affects organizational capabilities, but also that the frequency of conflicts has a negative moderating effect on the relationship between functional conflicts and marketing capabilities. Thus, channel managers must pay sufficient attention to both the level and frequency of conflict to ensure that only the positive effects of functional conflict are present. Moreover, this study presents a new challenge to channel managers on both sides of a relationship by suggesting they implement functional processes and mechanisms for functional conflicts between partners. It is

critical to examine how effective management is needed to foster the moderate level and frequency of conflict needed to generate positive effects.

Second, this empirical findings show that whether functional conflict is fully effective depends on whether channel members effectively leverage their mutual knowledge. Therefore, this study provides front-line managers in channel relationships guidance for developing rational understanding, motivating knowledge sharing, and improving communication skills to exploit knowledge sharing and conflict management. Finally, enterprises need to pay close attention to how they can take full advantage of the positive influence of relationship quality and avoid its negative influence on organizational capability.

## 7.3. Suggestions for future research

Future studies might conduct in-depth research into knowledge sharing. First, studies could compare the influence of the different dimensions of knowledge sharing (i.e., implicit and explicit) on capability. Second, studies could consider both the buyer and the seller as the objects of research, and compare the different attitudes of the two parties toward functional conflict. Finally, future researches should consider longitudinal studies to examine the variance in participants' knowledge sharing behavior at different stages of relationships, and thus verify the capability development at different levels of relationship quality.

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## Appendix A. Constructs and Items

### Frequency of functional conflict (Amason, 1996)

1. How many disagreements were there with this business partner over ideas about goal completion?
2. How many task-related disagreements did you both have to work through?
3. How many differences of opinion were there with this business partner over the interaction?

### Functional conflict (Rawwas et al., 1997; Thomas & Schmidt, 1976)

1. Disagreements between us are worked out in a friendly way.
2. Disagreements between us have increased the productivity of our working relationship.
3. Disagreements between us stimulate us to find productive solutions to our problems.

### Knowledge sharing (Wu & Lin, 2013)

1. Both partners expect that significant knowledge and experience will be shared during the interaction.
2. Exchange of information and knowledge about business strategies and policies between partners takes place frequently.
3. Exchange of information about changes of company structure and organizational hierarchy between partners takes place frequently.
4. Both partners are expected to keep the other partners informed about changes that could affect the business, such as customer preferences and customer needs.
5. It is expected that both partners will share information and knowledge about production technologies.
6. Both partners are expected to release confidential information such as financial reports.

### Innovation capability (Mooi & Frambach, 2012)

1. This business partner frequently finds new ways around old problems.
2. This business partner frequently develops her own ideas.
3. This business partner frequently improves upon current methods.
4. This business partner frequently talks up new ways of doing things.

#### **Responsive capability (Gu et al., 2008)**

1. This business partner is able to respond properly to market changes.
2. This business partner is able to sustain advantage during industry changes.
3. This business partner is able to adapt to change of consumer needs.

#### **Relationship quality (Crosby et al., 1990)**

1. This business partner always deals sincerely with us.
2. We can count on the information supplied by this business partner.
3. We feel that our business partner has been on our side.
4. Our business partner really takes care of our needs.
5. On the whole, we trust completely this business partner.
6. We would continue dealing with this business partner in a long run.
7. This business partner is a good company to do business with.
8. We are happy with the services we get from this business partner.
9. In general, we are satisfied with our dealings with this business partner.

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