

Andrea Calabrò, Emiliano Di Carlo, Francesco Ranalli

Which Conflict? Understanding Conflicts inside the Board of Directors



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Which Conflict?

Understanding Conflicts inside the Board of Directors

Andrea Calabrò, Emiliano Di Carlo, Francesco Ranalli¹

Abstract

The analysis of previous studies concerning corporate governance shows that some variables related to board behavior have not been properly taken into account. The paper analyses board of directors in its decision-making process highlighting the importance that a clear identification of conflict could have on board effectiveness. It emerges that conflict could be distinguished in many typologies affecting board dynamics and decision-making process. The aim of the paper is to identify the mainstream and the other borderline approaches in the existent literature in order to: (i) mark some confusions in the definition or use of the concept of conflict; (ii) point-out its potential in the study of board effectiveness in a behavioural per-spective; (iii) underline the need for operationalizing the concept for a better understanding of its impact on board effectiveness and for a robust future empirical research.

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Conflict; board of directors; decision-making process; board effectiveness.

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Editorial notes

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1. Introduction and motivation

The majority of research on board of directors behaviour has focused on establishing a relationship between demographic variables (board size, CEO duality, outsider ratio and CEO ownership) and the board or firm performance (Daily et al., 2003; Johnson et al., 1996).

However, it has been argued that this approach prevents the re-searcher from gaining any understanding of the processes through which inputs affects outputs (Pettigrew, 1992; Pye and Pettigrew, 2005; Roberts et al., 2005). For this reason, in the presence of complex processes and group dynamics, as in board decision-making, the use of demographic variables can lead to biased results (Dalton et al., 1998, 2003; Johnson et al., 1996; Forbes and Milliken, 1999).

In order to overcome these limitations a more eclectic approach has been recommended (Daily et al., 2003). It is important to note that a board is composed of directors with different backgrounds, ways of thinking and self-interests. Because of the presence of highly diverging interests in the board and the absence of ex-ante conflict resolution mechanisms, boards may also have a consensus-building function. A board of directors function as a negotiation forum whereby directors search for a compromise among a set of diverging interests (Huse, 2007).

Afterwards in studies on board of directors it is worthwhile to understand in detail how conflicts inside it and among directors may influence board's decision making process.

The paper is structured in seven basic sections:

1. Section one: research motivations.
2. Section two: definition of the theoretical framework.
3. Section three: presentation of the research methods.
4. Section four: presentation of what is conflict inside the board-room.
5. Section five: presentation of what is conflict in decision making groups.
6. Section six: discussion of propositions.
7. Section seven: conclusions and future research motivations.

2. Theoretical framework

Boards of directors are an episodic decision-making group facing complex tasks whose output is largely cognitive in nature (Forbes and Milliken, 1999). A consequence of the decision making process is that boards are vulnerable to interaction difficulties, and the effectiveness of decisions are largely dependent upon social-psychological processes, such as group participation, critical discussion and exchange of information (Forbes and Milliken, 1999; Milliken and Vollrath, 1991; Samra-Fredericks, 2000a, 2000b).

The decision-making culture is one of the key characteristics of the board as a team or a work group. The decision-making culture is a mediator between the board members and board task performance (Forbes and Milliken, 1999). The interactions and structures are mediating the relationship between the board members and the decision-making culture. It is important to see the human side of corporate governance, and that a board is a team (Huse, 2007). But boards are of-ten closed institutions, where a select few have ever witnessed a board in action. If the study of governance is to continue, there should be more focus and research on boards in action (Leblanc and Gillies, 2005). Decision-making failure in boardrooms has more to do with the independence of mind, and the competencies and behaviors of the directors sitting around the board table.

This include how they work together (Leblanc and Gillies, 2005). It is important to underline aspects of team dynamics, including cognitive perspectives when describing conflicts in boardrooms.

When exploring the board as a work group it is important to identify each of the team members and how they interact. Each board member may have her or his individual contribution and among board members could arise different kind of conflict. One of this is the cognitive conflict. The concept of cognitive conflict refers to the task-oriented differences in judgment between group members (Forbes and Milliken, 1999). Cognitive conflict can be defined as a disagreement in judgment over the content of the tasks being performed, including differences in viewpoints, ideas and opinions. Directors must feel accountable for their actions and the board should pursue a common vision and a common interest; this inevitably clashes with the universe of relationships

and interests of directors. In this context it is important to explore the influence that the conflicts inside the boardroom may have on board as a decision-making group.

This paper contributes to the literature on boards of directors by providing a more detailed exploration of which conflicts should exist in the boardroom and also investigate how conflicts in board may be different from other conflicts in small decision-making groups.

As Eisenhardt and Bourgeois (1988) have illustrated, conflicts need to be brought to the surface and then resolved. Drawing on a richer qualitative approach (Ravasi and Zattoni, 2006), future studies may include the resolution of conflicts among directors, deepening the knowledge on how it may affect decision-making processes in the boardroom. We argue that before studying conflict resolution it is important to explore which conflicts we may have when we analyse board of directors.

Accordingly with the previous issues about the different dimensions which can characterize conflict in boards and the specific nature of board' conflict, we propose:

PROPOSITION 1: In the board of directors exist many typologies of conflict.

PROPOSITION 1A: Conflicts in the board may be different from those in small decision-making groups.

3. Studies about conflict in the board

For the analysis of the theoretical framework we have chosen to build a database containing the most significant papers published in the main journals on corporate governance, from 1990 to 2007. We have also chosen to take into account some journals on small decision making groups studies, psychological studies and social network one. This paper proceeds as follows:

1. Definition of the selection criteria for the main journals to search on.
2. Definition of key-words and subsequent selection of papers from journals.
3. Analysis of the identified papers.

The first step has been to choose a reference document: the “Journal Rating AIDEA” of international journals presented at the National Congress held in Milan, in 2007. For the purposes of our analysis we have chosen journals that has been grouped in the areas of “Organization and Management and Strategy”. Within these two groups, journals are distinguished into “Category A” and “Category B” (Table 1).

For other research criteria we have only chosen the main journals (based on impact factor).

The second step has been to define the criteria for the definition of the keywords to use in the selected journals. We have chosen: “conflict”, “board”, “group” and “decision-making”.

We have sought the key-words both in the title and the abstract. Selected papers were those having the terms conflict, board, group and decision-making in the title and/or in the abstract. The time reference period was set from 1990 to 2007. The papers identified at the time of writing are 107.

The third step has been to analyse the selected papers according to their consistency with our research question.

4. Conflict inside the boardroom

Because of the presence of highly diverging interests in the board and the absence of an ex-ante conflict resolution mechanism, boards may also have a consensus-building function (Huse, 2007). A board of directors function as a negotiation forum where directors are searching for a compromise among a set of diverging interests. A closer examination of both the interests represented in the boards and of the directors’ self-interest may further improve our understanding of the institutional and ownership context affecting the role of the board and its functioning. Below are some proposed notions as the main conflict that takes place in the board of directors studies.

The concept of cognitive conflict refers to the task-oriented differences in judgement among members (Pettigrew and McNulty, 1995). Cognitive conflict can be defined as a disagreement in judgement over the content of the tasks being performed, including differences in viewpoints, ideas and opinions. Cognitive conflict implies that the board members may have different

opinions on important board issues. Each board member brings with them a different perspective on what is the best for the company and that they have very different ways of arguing and reasoning (Huse, 2007).

The groupthink concept has been used in the literature about cognitive conflicts in the boardrooms (Huse, Minichilli and Schøning, 2005). Conformity is a typical attribute among board members, and the boardroom culture often discourages dissent. However, one of the most important links in a virtuous circle is the board members' capacity to challenge each other's beliefs and assumptions.

One of the most important aspects with regard to cognitive conflict is that variations in perceptions are used. It is not enough to have different backgrounds and various perceptions; the boardroom culture must ensure that this variation is used. Cognitive conflicts and diversity may therefore not in themselves be characteristics of the board-room culture. What is needed is a boardroom culture that uses the knowledge and skills of its board members with various backgrounds and perceptions.

Cognitive conflicts have been defined as task-oriented conflicts, but such conflicts may relate to more than just which tasks should be done and the objectives of performing these tasks.

There may, for example, be disagreements about what is best for the firm: goal conflict. There may also be conflict about how to achieve what is best for the firm: policy conflict. Policy conflict may be related to how tasks should be performed and when. There may also exist various ways of arguing or reasoning among the board members.

Conflict is in general a strong and negatively loaded concept, but there may be different degrees of strengths in such disagreements or conflicts. Clearly, conflicts may go beyond perceiving issues in different ways or from different perspectives. The ways in which conflicts are handled will vary as well. In some boards, conflicts are not encouraged and all decisions have to be made unanimously. In others, boards may accept differences in opinion and boardroom voting need not always be unanimous.

Cognitive conflicts are often time-consuming, but usually considered to be beneficial. Affective conflicts are generally considered to be harmful. Affective conflict implies the dysfunctional and emotional conflict that arise from incom-

patibilities or disputes between decision partners (Zald, 1969). A conflict may start out as a cognitive conflict, but a long-term cognitive conflict may end up as an affective conflict. In this way, conflict dynamism may take place (Huse, 2007).

5. Definition of conflict in decision making process

Many researchers have sought to explain the multi-dimensionality of conflict and its paradoxical effects on decision-making (Amason, 1996; Jehn, 1995). The primary prescription emerging from this works has been addressed to teams in order to identify the benefits of cognitive (task) conflict while simultaneously avoiding the costs of affective (emotional) conflicts. For some time, researchers have sought to explain the paradoxical effects of conflicts on decision-making (Amason, 1996; Jehn, 1995). As a result a two-fold dimension of the conflict, both cognitive and affective, have come forth.

Cognitive conflicts occur when teams discuss and debate various preferences and opinions about their tasks. Such debates promote better decision-making by forcing teams to accommodate and synthesize multiple points of view (Schweiger et al., 1989).

Affective conflict, on the other hand, occurs when team members disagree over issues that are personal and emotional in nature. Such conflict hurts decision making by creating animosity and by distracting team members from the work and issues at hand (Jehn, 1994, 1995; Simons and Peterson, 2000).

In light of these dimensions, and the effects associated with them, researchers have suggested that decision making improves as teams are able to gain the benefits of cognitive conflict, while avoiding the costs of affective conflict (Amason and Sapienza, 1997; Simons and Peterson, 2000). The problem with this prescription is that these two types of conflict are closely related and often occur together. Thus, it is difficult to have one without the other. Researchers have speculated that cognitive and affective conflicts occur together because they share common antecedents (Amason and Sapienza, 1997; Jehn, 1994, 1995). While others have examined the relationship between cognitive and affective conflict (Simons and Peterson, 2000) and its potential for mediation.

To better understand the nature of cognitive and affective conflict, researchers have sought to identify the antecedents of each. Three basic sets of

antecedents have been examined: team, task, and organization. Team antecedents include characteristics of the team, such as size, composition, and diversity. Task antecedents include the nature of the work, such as its complexity and scope.

Organizational antecedents include organizational characteristics, such as norms and strategies. All of these various antecedents have been shown to have some effect on conflict (Amason and Sapienza, 1997; Jehn, 1994, 1995; Pelled et al., 1999; Mooney, Holahan and Amason, 2007).

It is no surprise that today's managers and employees still over-whelmingly view conflict as negative and something to be avoided or immediately resolved (Losey, 1994; Stone, 1995).

Recent studies, however, have examined the benefits of organizational conflict and methods for stimulating productive conflict (Tjosvold, 1991; Amason and Schweiger, 1994; Jehn, 1994, 1995; Van de Vliert and De Dreu, 1994; Pelled, 1996). For example, task-related management team conflict can improve organizational performance and growth through enhanced understanding of various viewpoints and creative options (Bourgeois, 1985; Eisenhardt and Schoonhoven, 1990). A common goal among board members is fundamental to task completion which explains why much of the past research on conflict and its resolution has concentrated on situations in which members have apparent opposing goals (Cosier and Rose, 1977; Kabanoff, 1985; Thompson, Mannix, and Bazerman, 1988; Eisenhardt and Schoonhoven, 1990).

In a review of small group research, Levine and Moreland (1990) addressed research on social dilemmas, bargaining, and coalition formation, all of which assume a basic conflict of goals within the group. But in many organizational groups, group members largely agree on individual and group goals (McGrath, 1984; Kabanoff, 1985) yet they still find themselves in conflict. "The ends versus the means" distinction provides a framework for examining various types of conflict that can occur in an organizational group (Simon, 1976; Tyler, De-goey and Smith, 1996).

Many classic qualitative studies of organizational behaviour may be viewed as qualitative studies of conflict (Mintzberg, 1973; Pettigrew, 1973; Dalton et al., 1980).

Throughout the literature of conflict inside organized groups, there are numerous meanings (Jehn, 1997) of the concept “conflict” that it is rightful to know and be able to have an exhaustive picture on the matter. In the following chart there is a synthesis of the main principal contributions that have found with a specific reference to the literature (Table 2).

6. Discussion of propositions

From our literature review, there are many differences between the conflicts in the boards and conflicts in decision-making groups. These differences are often attributable to the sources from which conflicts may arise. This exploratory paper has been helpful in this regard.

To better understand the nature and typologies of conflicts, researchers in small decision making groups have sought to identify the sources of each. Three basic sources have been examined in: team, task, and organization. Team includes characteristics of the team, such as size, composition, and diversity. Task includes the nature of the work, such as its complexity and scope. Organization includes organizational characteristics, such as norms and strategies. All of these various sources have been shown to have some effect on conflict (Amason and Sapienza, 1997; Jehn, 1994, 1995; Pelled et al., 1999; Mooney, Holahan and Amason, 2007).

In the literature on board there are not previous studies that argue about sources of conflict. But from recent studies (Forbes and Miliken, 1999; Pye and Pettigrew, 2005; Pettigrew, 1992) conflict is often more linked to processes specifically related to tasks. In our opinion it is important to analyse from which source conflict in the board may arise. As illustrated below, we propose a classification of conflicts’ sources with specific regard to the board of directors.

1. A type of conflict in the board is linked to decision-making and decision-making time. The concept of cognitive conflict refers to the task-oriented differences in judgment among members (Pettigrew and McNulty, 1995). It can be defined as a disagreement in judgment over the content of the tasks being performed, including differences in viewpoints, ideas and opinions. Cognitive conflict implies that the board members may have different

opinions on important board issues, that they bring with them different perspectives on what is the best for the company and that they have very different ways of arguing and reasoning (Huse, 2007). These different viewpoints arise from different information that each director possesses. This type of conflict in the board may have positive effects. It is a sign of board activism in the decision making process.

2. Another type of conflict within the board is the affective conflict. Affective conflict is the dysfunctional and emotional conflict that arise from incompatibilities or disputes between decision partners (Zald, 1969). A conflict may start out as a cognitive conflict, but a long-term cognitive conflict may end up as an affective conflict. In this way conflict dynamism may take place (Huse, 2007). This type of conflict is more on a personal level and may be detrimental to the functioning of the board as an organ intended for consensus-building.
3. Such conflicts may relate to more than just which tasks should be done and the objectives of performing these tasks. There may, for example, be disagreements about what is best for the firm: this can be termed goal conflict.
4. Policy conflict stems from the fact that the chosen goal may be reached in different ways and there may also be disagreements about how to achieve what is best for the firm. Policy conflict may be related to how tasks should be performed and when.
5. Other types of conflict may have origin from different social ties and business ties that may arise within the directors in the board. The focus is on the board of directors and on conflicts among directors. The sources of these conflicts are directors' social ties and business ties. The criticality of this point is a clear definition of what are social ties and business ties. For what concern social ties it is important to underline that in board seen as a work group we may refer also to the logic of the group or clan. Among directors in the boardroom and out-side it may exist many interactions and relation (social or business). Following this logic it seems that within the boardroom various coalition may also exist. This lead to different group of people in the boardroom with different goals and interest. This different coalitions may be in conflict within the board. This typology of conflict in-

side the boardroom and among directors is different from cognitive conflict because different are the sources. This typology of conflict arise from social ties and business ties among directors. Cognitive conflict is a task-oriented conflict and arises from disagreement in judgment over the content of the tasks being performed, including differences in viewpoints, ideas and opinions. What seems important is that the conflict among directors arising from social and business ties may affect the level of cognitive conflict in the boardroom.

Conflict is a dynamic variable. It seems very difficult to take it into account in board studies. Conflict dynamism is set not only for its various typology but also for its timing. For this reason it is very difficult to establish measures of the conflict in the board.

We have to consider more criticality in conflicts that arise from social ties. These criticality are linked to the difficulties to map social ties. For this reason it is better to focus on those conflicts whose sources may be investigated. Only in this way in future studies on board we may specify questions to the directors to bring out possible sources of conflicts.

Finally it is important to consider that conflict in the board has a multidimensional nature and it is a dynamic variables. If we refer to directors' conflict in relation with their interest and that of the firm in which he will work it could be possible to establish on the basis of their curriculum if he is or not in conflict. In this way we may know if they are in conflict with other board members or with other internal or external actors but we may not identify when the conflict will manifest. This because its expression is linked to the time when the decision will take or when it will be a specific action.

7. Conclusion and implications for future research

This paper shows that interactions which take place both inside and outside the boardroom may be considered as sources of conflicts in-side and outside the board of directors.

Research results concerning the various actors and how they interact are found in two main bodies of literature. These are, on the one hand, the work on social networks and social movement (which also include the work on in-

terlocking directorates), and, on the other hand the work on TMT's (which explores the relations and interactions between board members and important internal actors). Afterwards in the analysis of conflicts inside the boardroom, we suggest that it seems necessary improve the work on social network to better understand the relationships among actors inside and outside the boardroom. Also in conflicts exploration, boards can be depicted as complex political systems with agents organised in coalitions, some of them organised into sub-coalitions (March, 1962; Cyert and March 1963).

Coalition partners may have distinct preferences and objectives, which make negotiation and bargaining among coalition members common practice. Shifts in coalitions of board actors affect board decisions, goal-setting and problem-solving processes. Conflicts are re-solved through political bargaining rather than through objective alignment by economic incentives.

Different coalitions may pursue conflicting goals, and organizations may encompass a variety of potentially conflicting and inconsistent goals by pursuing them sequentially. A behavioral theory of boards and governance will consider organizations as multiple coalitions of actors. These actors may have conflicting interests and will achieve their goals through changing coalitions in the bargaining process within the corporation. In explaining decisions, a behavioral theory of boards and governance will focus on the political aspects of board behavior (Zald, 1969), and also on the allocation and use of power in the top echelons of the organization and among alternative coalitions of actors (Aguilera and Jackson, 2003). In this sense future researches could analyse the coalitions and use of power inside the board of directors to better explain the possible sources of conflicts.

Finally, the interactions may take place between the various board members, between the board members and the TMT, or between the board members and actors who are outside the firm. These interactions take place in various arenas and at various times (Huse, 2007) and actors have different kinds of power. The power relations are to a large extent influenced by the context, but also by the individual characteristics of the actors and their relational dynamics. Afterwards it is important to introduce and to consider these human elements in the analysis of board of directors and how the dynamic of conflicts influence board decision making process.

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Tables

Table 1: Total number of selected journals

	Category A	Category B	Total Journals
Organization	11	6	17
Management and Strategy	37	54	91
Total Journals	48	60	108

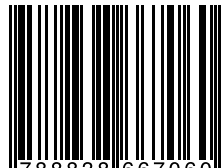
Table 2: Typology of conflict in decision making process

Authors	Typology of conflict	Contribution
Cosier (1956)	Goal-oriented conflict; emotional conflict;	Goal-oriented conflict, in which individuals pursue specific gains; emotional conflict, which is projected frustration with interpersonal interactions.
Deutsch (1969)	Relationship conflicts	Relationship conflicts decrease goodwill and mutual understanding, which hinders the completion of organizational tasks.
Evan (1965); Gladstein (1984); Wall and Nolan (1986)	Relationship conflicts	Empirical research shows a negative association between relationship conflict, productivity, and satisfaction in groups. relationship conflicts interfere with task-related effort because members focus on reducing threats, increasing power, and attempting to build cohesion rather than working on the task.
Cosier and Rose (1977); Schweiger, Sandberg, and Rechner (1989); Amason (1996)	Task conflict (cognitive conflict)	Task conflict can improve decision-making outcomes and group productivity by increasing decision quality through incorporating devil's advocacy roles and constructive criticism.
Bottger and Yetton (1988); Schweiger and Sandberg (1991)	Conflict perception	Group norms control how conflict is perceived by members and how it affects group performance.



Authors	Typology of conflict	Contribution
Pinkley (1990a)	Intellectual vs emotional conflict	In a study of disputants' interpretations of conflict.
Pinkley (1990b)	Task vs relationship conflict	Multidimensional scaling study that shows the dimension of conflict.
Priem and Price (1991)	Cognitive conflicts; task-related conflicts; social-emotional conflicts;	Social-emotional conflicts are characterized by interpersonal disagreements not directly related to the task.
Jehn (1992)	Task-focused vs relationship-focused conflicts	These two types of conflict differentially affect work group outcomes. This division between task and relationship leads to different predictions about the effect of conflict on group outcomes. moderate levels of task conflict are constructive, since they stimulate discussion of ideas that help groups perform better.
Thomas (1992)	Emotional conflict	Conflict is often associated with stress and threat, which increase emotional responses and negative arousal.
Ginzel (1994)	Task conflict	Groups with an absence of task conflict may miss new ways to enhance their performance, while very high levels of task conflict may interfere with task completion. Since most attributions are personal rather than situational task conflicts are often perceived as personal attacks.
Pruitt (1981); Jehn (1995)	Effect of conflict	Group communication norms may also influence the effect of conflict.
Jehn (1997)	Process conflict	This conflict is described as "responsibility disagreements" and "disagreeing about utilizing people". I define process conflict as conflict about how task accomplishment should proceed in the work unit, who's responsible for what, and how things should be delegated. Process conflict includes disagreements about assignments of duties or resources.

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