CONFLICT REDUCTION IN ORGANIZATION DESIGN: BUDGETING AND ACCOUNTING CONTROL SYSTEMS

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ABSTRACT

This paper presents a synthesis of ideas from the management accounting literature and the organization design literature. Specifically, it proposes that budgets and control systems implemented as part of the management accounting structure of an organization can reduce conflict in decision making by small groups. The paper outlines a research strategy and suggests operational variables that might be used in this type of research.

INTRODUCTION

Existing research on group decision making behavior defines conflict as disagreement about decisions or differences in viewpoints, ideas, and opinions (see, for example, Simons and Peterson 2000; Jehn 1995). Although some conflict can certainly be helpful, it can lead to process losses and inferior outcomes. These negative outcomes, such as lower levels of group member satisfaction with the process and poor decision quality have been found in multiple studies (see, for example, De Dreu and Weingart 2003; Jehn 1995; Lau and Murnighan 1998; 2005; and van Knippenberg et al. 2004). Thus, it becomes useful to identify organizational designs that can minimize these negative outcomes by minimizing the negative effects of conflict on group decision making processes. The research program outlined in this paper is directed at such identification.

ORGANIZATIONAL STRUCTURE AND DECISION-MAKING GROUPS

Organizations often form decision-making groups that draw persons with a wide range of experience and expertise to help the organization achieve specific strategic objectives (Cohen and Bailey 1997; van Knippenberg et al. 2004). Some researchers have argued that group heterogeneity is more advantageous for complex decision-making tasks than homogeneous groups or individuals (Harrison et al. 2002; Jackson et al. 2003; Lau and Murnighan 2005; Naranjo-Gil and Hartmann 2007; Williams and O’Reilly 1998). When people from different backgrounds come together in a heterogeneous group, they tend to be attracted to those who appear to be most like themselves (Byrne 1971). The things members tend to notice when they first encounter each other are superficial and obvious attributes such as gender, nationality,
ethnicity, and profession. Later, members find similarities and differences related to deeper characteristics such as ideologies and backgrounds, function, and educational background.

One could argue that heterogeneity should help in problem solving and decision making through the collaborative exchange of knowledge and ideas across individuals having different backgrounds and expertise. Existing research in psychology and management, however, shows that heterogeneity often has negative effects on group decision processes and outcomes because intra-group conflicts interfere with the smooth functioning of the group (Ancona and Caldwell 1992; Jehn 1995; Lau and Murnighan 1998; 2005; Thatcher et al. 2003; van Knippenberg and Schippers 2007; Williams and O’Reilly 1998).

Andersen et al. (2002), who examined the performance of activity-based costing teams in the automotive industry, found that “as team heterogeneity increases, the team’s ability to resolve conflict decreases” (198). Thus, researchers have concluded that heterogeneity in groups is a key concern (van Knippenberg et al. 2004) because it can have both positive and negative consequences for decision-making groups (Lau and Murnighan 1998; 2005; Thatcher et al. 2003; van Knippenberg and Schippers 2007; Williams and O’Reilly 1998). One explanation for the mixed effects is the effect of group heterogeneity on group conflict.

TYPES OF CONFLICT IN GROUP DECISION MAKING

Conflict arises in groups because of incompatible or discrepant views between group members (Jehn & Bendersky 2003). Two types of conflict that have received attention in past research are task conflict and relationship conflict (Jehn 1995; O’Reilly et al. 1998). Task conflict relates to task issues such as goal clarification. Relationship conflict refers to conflict about interpersonal issues. Simmons and Peterson (2000, 102) define task or cognitive conflict as involving “differences in viewpoints, ideas, and opinions,” and contrast relationship or emotional conflict as involving “tension, annoyance, and animosity among group members.”

Although some researchers find task conflict to improve group decision-making outcomes, other researchers find it to be detrimental to those outcomes (for a comprehensive review, see De Dreu & Weingart 2003). On the one hand, research suggests that task conflict can promote information sharing, which can improve individual understanding of the task. On the other hand, research suggests that task conflict may distract members from the task, thus creating dissatisfaction and lack of consensus on decision outcomes. Research shows that one potential reason for the negative effects of task conflict is its high correlation with relationship conflict (De Dreu & Weingart, 2003). De Dreu & Weingart (2003) found that relationship conflict negatively affects team outcomes.

Similarly, Cronin and Bezrukova (2006) found that relationship conflict was positively associated with negative emotions and irritation, two types of affect that can, in turn, reduce group members’ ability to process information. In a study of the effect of demographic diversity on group performance, O’Reilly et al. (1989) find a very strong correlation (r = 0.88) between
task and relationship conflict. Thus, they conclude that task conflict and relationship conflict are often indistinguishable from each other. Consistent with the findings of O’Reilly et al. (1989) and De Dreu and Weingart (2003), this paper concludes that a single dimension perspective on the study of conflict is most advisable. The conclusion and recommendation is that any study of this phenomenon use a single measure of conflict that includes both task and relationship conflict.

**FAULTLINE THEORY**

Since conflict reduces the effectiveness of group decision making processes and outcomes, it becomes useful to identify organizational designs that can minimize these negative outcomes by minimizing the negative effects of conflict on group decision making processes. Faultline theory, as proposed by Lau and Murnighan (1998), provides one theoretical frame that identifies how conflict develops in decision-making groups.

Faultlines are potential dividing lines that, when activated by a trigger, split a single heterogeneous group into two or more homogeneous subgroups (Lau and Murnighan 1998). For example, a group composed of half females and half males might split into two groups along gender lines if an issue of gender inequality enters the group’s awareness. In this case, gender would be the faultline and the issue of inequality would be the trigger that activates the faultline. Faultline occurrences can be triggered by demographic characteristics of the group members (such faultlines tend to be distracting and not useful to the formation of group consensus) or they can be triggered by motivational characteristics of the group members, such as organizational affiliation (these faultlines might be useful in motivating position defenses within the group structure, but they are not always useful).

The theoretical argument for the existence of faultlines is consistent with social identity and self-categorization theories (Tajfel and Turner 1986) and similarity-attraction theory (Byrne 1971). Tajfel and Turner (1986) assert that individuals classify themselves and others into social categories based on a limited number of salient attributes, of which demographic characteristics such as gender, tenure, race, and functional background are typical. Furthermore, people classify themselves in this manner to reinforce their ego or personal beliefs. Some researchers argue that the classification of group members by their attributes can negatively affect group processes and outcomes (Jehn 1995; Tajfel and Turner, 1986). The similarity–attraction paradigm (Byrne 1971) postulates that the greater the degree of similarity between two individuals, the greater the attraction will be. People are more easily attracted to people who look and behave as they do. Similarity reinforces one’s self-concept while differences call one’s self concept into question. Hence, people seek to associate with others who are similar as a means of self-reinforcement. A logical conclusion is that dissimilarity among members of a group may lead to dislike and perceptions of in-group and out-group (Xu and Tuttle 2005). When this happens, faultlines
develop within the group that may remain dormant, or become activated depending on the dynamics of the internal and external group environment as explained next.

Prior studies examining the effects of faultlines in groups have shown that heterogeneity alone is necessary but not sufficient for the activation of a faultline (Lau and Murnighan 1998; 2005; Li and Hambrick 2005; Thatcher et al. 2003). They argue that for the overall group to split into subgroups depends on whether the task or context contains faultline-relevant elements that stress the salience of within-subgroup similarities and between-subgroup differences.

When activated, faultlines tend to produce conflict between the subgroups they create (Jehn 1995; Lau and Murnighan 1998; 2005; van Knippenberg et al. 2004). Although substantive disagreement among individuals working together in groups can sometimes lead to higher quality decisions, the conflicts triggered by activated faultlines are usually associated with lower member satisfaction with the decision made and with lower perceived decision quality (Jehn 1995; 1997; Lau and Murnighan 1998; 2005; Rico et al. 2007; Sawyer et al. 2006; van Knippenberg et al. 2007).

The presence of a faultline-relevant task creates a trigger. Once a faultline is triggered it becomes active and the dynamics of decision-making in a group change (Lau and Murnighan 2005; Thatcher et al. 2003). These changes in processes arise because group members self-categorize themselves into similar subgroups that exclude dissimilar members (Byrne 1971; Tajfel and Turner 1986). Such categorization leads to a sense of us-versus-them. In groups with strong faultlines, subgroup identity may dominate the overall group identity and produce high levels of inter-subgroup conflict (Jehn 1995: 1997; O’Reilly et al. 1989).

Similarly, the perception of the others as an out-group caused by the active-faultline may lead to breakdowns in communication (Lau and Murnighan 2005). For example, members of one subgroup may develop negative stereotypes towards members of another subgroup while simultaneously cultivating positive stereotypes to support their own subgroup (Prentice and Miller 2002). In summary, faultline-generated conflict affects group processes and outcomes by accentuating subgroup boundaries, and increasing biases. These processes reduce communication and lead to frustration, discomfort, hostility, and anxiety (Jehn 1995; O’Reilly et al. 1989).

**THE ROLE OF BUDGETS AND ACCOUNTING CONTROL SYSTEMS**

Lau and Murnighan (1998) suggest that in business decision-making contexts, budget limitations can be an important trigger for faultlines when groups consist of members that work in different (especially competing) business units. The management accounting literature asserts that the purpose of budgets and accounting control systems is to provide information to facilitate managerial decision-making consistent with an organization’s strategic goals (Anthony and Govindarajan 2001; Cheng et al. 2003; Chong and Eggleton 2003).
Research shows that budgets and accounting control systems affect the quality of decisions in organizations by providing and organizing information in ways that can facilitate decision making (Sprinkle 2003). For example, effective decision-making in groups requires the identification of the available alternative actions, prediction of the possible consequences of those actions, and then choosing the action that has the most preferred outcome for the organization.

Budgets and accounting control systems can provide information to help identify alternative actions, predict the possible consequences of alternative actions, and choose the most preferred alternative based on perceptions of what outcomes are fair for all parties to the decision. Budgets provide information that helps managers structure the decision task. For example, budgets help decision makers to identify problems and to increase their understanding of the task environment. Budgets and their related variance reporting mechanisms achieve this by rendering certain operational activities and events visible and by framing and directing discussions about potential problems and issues (Ahrens 1997). Accounting control systems provide information that is useful to managers in justifying their decision (that is, they provide information that supports the processes and procedures that form the basis for the decision). Overall, these considerations suggest that budgets and accounting control systems could affect group outcomes in substantial ways.

With respect to decision processes, procedural justice theory (Rawls 1971) asserts that individuals are more likely to be satisfied with outcomes if they perceive that the process by which the outcome is determined is fair and justifiable. One important determinant of procedural justice is transparency (Cutler and Vilhuber 2008; Simon, 2006). Transparency is the extent to which decision makers receive sufficient information to make them aware of how various factors affect all constituents (Simon, 2006). Using procedural justice theory as a framework, Kim and Mauborgne (1993) predicted and found a link between managers' perceptions of procedural fairness and their affective responses to strategic decision processes.

In summary, this paper argues that budgets and accounting control systems can and do provide needed information and a framework that can help groups work through conflict. Because conflict resolution is central to many group processes, extensions of our knowledge about how these accounting systems contribute to decision-making processes in a group context is important (see also Jehn 1995, Sprinkle 2003). Therefore, we propose a research strategy outlined in the next section to begin accomplishing this objective.

**RECOMMENDATIONS FOR RESEARCH**

Based on the analysis of existing theory and empirical research outlined in earlier sections of this paper, this section provides recommendations for research studies that will fill in the gaps in the collective knowledge about the role of faultlines in organizational conflict and identify any moderating roles played by budgets and accounting control systems. The extant
literature suggests that these exist, however, no empirical studies have yet been reported that accomplish these objectives.

Participants in these studies could be undergraduate students, a ready pool of which exist at many universities. Because the dynamic being examined is a basic human trait, undergraduate students would be suitable. The availability of a large pool of potential participants is important, because the unit of study in this type of research is the group, and groups must be composed of a number of participants. To test the effects of budgets and accounting control systems, participants would need a working knowledge of these systems. Such knowledge is normally obtained by business undergraduate students by completing a one- or two-course sequence in introductory accounting. Topics to which these students should have been exposed include budgets, performance measurement systems, cost systems, and variance analysis. These topics are included in virtually all undergraduate courses in management accounting at the principles level. MBA students would be excellent subjects, also. They would have similar levels of knowledge about budgets and accounting control systems. Additionally, MBA students with business experience would likely have experience in group decision-making tasks. In fact, one useful empirical study would be to test the performance of undergraduate students (with no business experience) against the performance of MBA students (with business experience) to determine if there is an experience effect.

Manipulations that could create faultline conditions could include forming groups with gender differences, age differences, or differences in major (for undergraduate student participants). Faultline conditions could also be imposed on the group members by giving them specific roles as members of different departments or business units. Adding an incentive that is paid based on decision outcome could be used to reinforce the feeling of loyalty to one’s department. The inclusion of a budget or accounting control system could constitute a manipulated variable itself, or various types of budget or control system could be tested for level of effect in triggering faultline activation. The very existence of a budget constraint could be sufficient to trigger faultline activation, for example.

A variety of dependent variable measures would be suitable for empirical studies of these phenomena. The quality of groups’ decisions could be measured using some objective scale. More likely, the dependent variables would be measures of group participants’ perceptions about the quality of the resulting decision and about the quality of their experience in the process. Conflict can be measured using the multi-item intra-group conflict scale developed by Jehn (1995). This conflict questionnaire includes items that ask for individual participants’ perceptions of the level of disagreement between group members. Individual participant satisfaction with the process can be measured using scales such as Keyton’s (1991) global satisfaction indices or adaptations of Wall and Nolan’s (1986) satisfaction questionnaires. Procedural justice can be assessed by asking questions about the fairness of the budget and accounting control system and the quality of information provided by them.
SUMMARY AND CONCLUSION

This paper outlines an important area of academic inquiry into how organization design, including elements of the accounting control system, affects the level of conflict that can occur in a group decision-making process and the quality of the outcomes of such a process. It synthesizes ideas from the management accounting literature and the organization design literature. Specifically, it proposes that budgets and control systems implemented as part of the management accounting structure of an organization can reduce conflict in decision making by small groups. The paper concludes with a research strategy and suggests both participants and operational variables that could be used productively in this type of research.

REFERENCES


