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The control imperative

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TWO

Different conflicts, different reorganizations¹

Since Hegel suggested that conflict was the engine of history, the relationship between conflict and change has concerned social scientists. The idea that opposing forces exist in society and organizations and that collisions between them (may) challenge the status quo has informed a rich vein of sociological, economic and political approaches on social and institutional change (Van de Ven and Hargrave 2004). In spite of this, in the organizational sciences, critical and radical traditions are perhaps the only prominent approaches that explicitly address the centrality of conflict for organizational development (for an extensive review and comment on perspectives on organizational change, see Demers 2007). In the vast majority of mainstream organizational approaches the relation between conflict and change, and in particular the idea that conflict can bring about change is strikingly absent (cf. Demers 2007). In most of the organization development (OD) literature, for instance, the issue of conflict is by and large addressed as an inconvenience of reorganizing; namely, conflict is assumed to be one of the facets of resistance to change

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or comes from lack of commitment (Armenakis and Bedeian 1999; Cummings and Worley 2008; Jaros 2010). That is, conflict is not seen as a source of change but of inertia. Although conflict management research has long established that conflict is an unavoidable aspect of formal organization (Rahim 2002), implications of conflict have been mostly addressed from an interpersonal or intergroup perspective, largely disconnected from strategic organizational processes such as reorganizations (Rahim 2002; also cf. Jones 2004; Pondy 1967). For instance, conflict does not figure in a recent review of drivers of processes of change in organizations (Whelan-Berry and Somerville 2010).

We believe a puzzle remains in that it is unclear if and how conflicts influence strategic decisions in companies, such as the decision to embark on reorganizations (see also Robertson, Roberts and Porras 1993). We claim that studying conflict arising from structural characteristics of the firm sheds light on this conundrum in that the differences may contribute to explain why a given outlook on reorganization is chosen over another. By “structural conflict” we mean disagreement and confrontation between organizational members or subunits resulting from formal differentiation in an organization.

The purpose of this chapter is to explain why managers choose to embark on a given type of reorganization by looking at differences in structural conflict in organizations. Our explanation aims at bringing organizational structure and intra-organizational conflict back into the discussion of planned organizational change. We argue that to explain change, it is not only important to look at external pressures and contingencies, as is currently a dominant explanatory perspective, but also at endogenous dynamics between structural conflict and managerial action. Focusing on the connection between conflict and change also responds to Van de Ven’s (1992) call for research on change that generates new knowledge on organizational strategy and development. Our study contributes to this by offering an approach that uses differences in structural conflict to understand

why some types of reorganization occur more frequently than others.

We focus on two general types of reorganization, reflecting two distinct theories on planned organizational change (for a detailed discussion, see Beer and Nohria 2000; also cf. Huy 2001). On the one hand, *type E reorganizations* refer to initiatives focused on directly improving the economic value of the company, such as downsizing and delayering. On the other hand, *type O reorganizations* refer to changes focused on building up organizational capacity, such as process reengineering or training and socialization initiatives. This distinction is empirically and theoretically relevant: type E and type O changes refer to two distinctive outlooks on reorganization as means to improve organizational performance; the one emphasizes quick and decisive structural adjustment, whereas the other underscores incremental and consensual change in policies and organizational capabilities (Beer and Nohria 2000). Although prescriptions and general models of either form of reorganization, explicitly or implicitly abound in the literature (cf. Burnes 2004; Campbell, Worrall, and Cooper 2000; Palmer, Dunford and Akin 2009; Porras and Silver 1991; Van de Ven and Poole 1995), studies that explain observed diversity in types of reorganization—and the reasons for it—remain limited (Colombo and Delmastro 2002; Huy 2001; Robertson, Roberts and Porras 1993; Vales 2007; Van de Ven 1992). We posit that the decision of adopting a type E or type O approach on reorganization is influenced by structural conflict. Specifically, we ask: *to what extent do variations in structural conflict influence the (managerial) decision of under-taking type E or type O change?*

We do not claim that (differences in) structural conflict is the sole explanation behind the decision to embark on type E or type O change. However, we do maintain that theoretical and empirical affinities exist between given forms of structural conflict and the decision to initiate qualitatively different reorganizations, and these affinities have relevant consequences for

managerial strategy. In line with this, others like Gelfand, Leslie, Keller and De Dreu (2012) have already argued that differences in conflict at the organizational level tend to be associated with different forms of conflict management (see also Kolb and Putnam 1992; Rahim 2002).

The remainder of this chapter is arranged as follows. In the next section we develop a theoretical approach on structural conflict and reorganization. Second, we test our argument using survey data from 238 managers of Dutch tertiary sector organizations collected in 2006. We then report our statistical analyses and results. The final section provides a discussion of our findings and suggests avenues for future research.

Theoretical background

Structural conflict

Previous research has established that conflict is an unavoidable feature of formal organizations (Kolb and Putnam 1992; Pondy 1967; Rahim 2002; Rahim and Bonoma 1979; Simmel 1964/1908). In this literature, the reasons for the ubiquity of conflict go hand in hand with disagreements regarding work or interpersonal clashes. For instance, the classical work by Guetzkow and Gyr (1954) makes a point of differentiating between tasks and emotional conflicts. Jehn (1997) and Person, Ensley and Amason (2002) echo this in their distinction between task and relational conflict.

An alternative way of dealing with the ubiquity of conflict is to look at it from a structural perspective. Organizational structures exhibit regularities that can be studied on their own without relying on assumptions about interpersonal grievances or the precise nature of the division of work across different organizations. As explained below, we propose that the principle of structural differentiation—that is, division of responsibilities

and authority in an organization into subunits (Blau 1970), each of which develops particular properties in relation to its environment (Lawrence and Lorsch 1967)—accounts for general forms of conflict that are likely to elicit different managerial responses.

There are at least two possible types of structural conflict in any organization: vertical and horizontal. *Vertical conflict* refers to disagreement and confrontation arising from hierarchical differentiation. Hierarchical differentiation implies a division of responsibilities across vertical lines of authority (e.g., managers and workers). Vertical differentiation allows organizations to cope with the problem of attaining complex activities: the more sub-goals and actions are separated into manageable sets, the easier it is for organizational members to fulfill them (Blau 1970). In particular, vertical differentiation allows for separation between executive and operative activities. This economic or “agency” relation entails that some segments of the organization are responsible for the formulation and evaluation of organizational policies and strategy (executive segment), whereas other segments are responsible for their implementation (operative segment). This relationship is marked by asymmetry and uncertainty as executive segments must rely on operative segments to fulfill their goals. Vertical differentiation is likely to hatch conflict when the segments’ goals misalign (Cyert and March 1963; Simon 1979; Williamson 1967); information exchange between segments fails (Van der Mandele and Van Witteloostuijn 2013); or authority lines lose effectiveness (Sauerman and Stephan 2012; Sen 1993). Conflict magnifies uncertainty, inherent in the hierarchical relation (Eisenhardt 1989). Therefore, when conflict arises across vertical lines of differentiation, the economic relation of delegation becomes less efficient because additional resources need to be employed to reduce asymmetry and uncertainty.

The structural complement of vertical differentiation is horizontal differentiation; that is, subdivision based on function-

al specialization (e.g., staff and line functions). This form of differentiation requires both executive and operative segments to become horizontally subdivided among different functional divisions (Blau 1970). Horizontal differentiation brings about a heterarchical division of responsibilities into functionally specialized subunits. There is limited autonomy because subunits have relative influence over the way other subunits operate, that is, they are interdependent (Fairtlough 2005; Lawrence and Lorsch 1967). Therefore, functional relations arising from horizontal differentiation are characterized by the need to achieve coordination among segments with parochial interests and fuzzy lines of authority. Functional differentiation brings about conflict when different interests collide; functional divisions compete for control; or (social) cohesion across segments weakens (De Dreu and Beersma 2005; Friedkin and Johnson 2002; Jones 2004; Mintzberg 1979; Morrill 1991). *Horizontal conflicts* affect (functional) coordination relations and thus the ability of an organization to integrate multiple functions needed to achieve organizational goals.

In sum, the nature (and consequences) of conflict may significantly differ across vertical and horizontal structural dimensions. On the one hand, vertical conflict may intensify inefficiencies in economic relations of agency/delegation among parties with asymmetric power. On the other, horizontal conflict aggravates inadequacies and lack of synchronization in heterarchical relations between parties with control over certain organizational activities. Vertical conflict is likely to increase the costs of securing compliance. Horizontal conflict is likely to increase the costs of achieving coordination among laterally positioned subunits. Therefore, it is important to note that by straining structural (vertical or horizontal) divisions, either type of conflict will likely affect in different ways the ability to control activities necessary to achieve organizational goals: either by affecting relations of agency/delegation or by shortcutting functional coordination.

Managerial action as link between structural conflict and change

Recognized structural conflict is likely to activate managerial reactions. Managers scan the organization for relevant information on conditions affecting performance. Conflict management theories argue that recognition of conflict opens opportunities for adjustment. In other words, once managers identify conflicts, they are likely to do something about them; namely, to attempt changes that mitigate or reduce conflict (Brorström and Siverbo 2004; Katz and Flynn 2013; Pascale 1990; Rahim 2002). This observation is consistent with findings from managerial cognition research that stress the connection between perceived instabilities in the immediate environment of managers and their response. It has been shown that managers' perceptions powerfully guide actions concerning strategic choices (Foss and Lindenberg 2013; Nadkarni and Barr 2008; Stubbart 1989).

Managers have material, cognitive and social incentives to reduce conflict in their organization, and their formal and informal position offers the opportunities to undertake action in this direction. First, conflict may indicate inadequate control, which in turn may threaten a manager's position or his or her ability to comply with performance targets (see Chapter 1). Second, conflict may be an opportunity to exploit a power vacuum: where potential rivals fight, an opposing coalition against managerial action becomes less likely (Mumby 2005). Brokerage and arbitration between contesting factions also present opportunities for managers to increase their influence (Burt 1992). Third, structural conflict may indicate suboptimally designed structures or processes, which might negatively impact managerial capacity and create performance problems (cf. Ouchi 1977).

Implementing reorganizations allows managers to deal with structural conflict. Managers can use change to define new

structures, policies and procedures. That is, change enables managers to create a better position which might be considered superior compared to the status quo, either because changes will bring about direct benefits (e.g., increased managerial capacity) or indirect ones (e.g., better organizational performance). Given the previous, we hypothesize that:

Hypothesis 1—Perceptions of structural conflict will increase the likelihood of reorganizations.

Different forms of conflict and types of reorganization

Type E changes usually involve the use of financial incentives (e.g., bonus and targeting), layoffs and downsizing (Beer and Nohria 2000; also cf. Huy 2001). Typically, these changes are guided by the notion that structural reorganization can quickly improve return value for shareholders or company owners. In its archetypical form, type E changes are top-down interventions that transform structures and systems, that is, the “hardware” of the organization. These are the sort of “tough” reforms that place companies and managers under the spotlight of public opinion: drastic layoffs or merging of corporate divisions. But type E changes may not necessarily be aggressive nor, as the common wisdom suggests, necessary hostile against frontline workers. For example, delayering initiatives may be directed to specific managerial echelons, and not operative levels. In either case, the central idea behind type E change is that cost-cutting structural reorganization improves return value of the company, not only by reducing transactional costs but also by reaffirming top-down control over activities (Williamson 1967).

Type O changes, by contrast, involve more “indirect” ways of reorganization. Archetypally, type O changes refer to gradual and consented adjustments to organizational policies, procedures and human capabilities (i.e., the organizational “soft-

ware”). Training and socialization programs, process reengineering, and innovation initiatives are examples of this type of reorganization. These long-term interventions focus on improving corporate procedures and human capabilities to improve overall performance. Whereas exponents of type E change assume that nippy structural change directly brings benefits, advocates of type O change propose that in order to improve return value and performance one may adjust the way work is done within existing structures by focusing on improving the quality of the social relations within the organization. The idea is that type O change improves organizational capacity by increasing commitment, addressing task redundancies and enhancing the competencies of organizational members (Beer and Nohria 2000).

Admittedly, type E and type O are not mutually exclusive sets. In reality corporate initiatives of planned change may be mixed. Case studies of reorganizations at ASDA—the British retail company—and General Motors illustrate the fact that both types of change may co-occur (Beer and Nohria 2000; Freeland 2005). However, it is useful to study them separately because the underlying theories of reorganization differ and their organizational effects are not necessarily the same.

We hypothesize that given that managers recognize *vertical conflict*, they are more likely to opt for type E change. Vertical conflict has the potential to directly affect hierarchical agency relations. For example, sustained conflict between workers and management is likely to affect organizational productivity (Rahim 2011). In a context of vertical conflict, managers may adopt type E changes that in turn allow them to reengineer problematic structures and renew control over relations of delegation. Changing the number of hierarchical layers (delaying) or the number of employees (downsizing) are examples of changes that (a) potentially reduce the amount of resources needed to control operations and (b) reaffirm vertical lines of authority. In contrast, in the vertical conflict context, type O changes may not necessarily help or even be feasible because conflict between

asymmetrically powerful parties may preclude the conditions for implementing gradual and consented changes. Type 0 initiatives rely on the implicit assumption that managers have the legitimacy to formulate and gather support around change. However, in a context of stark vertical conflict, managerial authority and legitimacy may very well be at the center of dispute (Buchanan and Badham 2004).

Hypothesis 2—Perceptions of vertical structural conflict will increase the likelihood of type E reorganizations, relative to type 0 reorganizations.

A different picture is likely to emerge in *horizontal conflict*, which relates to problems rooted in intra-organizational interdependence. It refers to disagreements between parties in a heterarchical relation; that is, when no one can exert clear domination over another. These conflicts might acquire the form of turf battles or perhaps mutual obstruction among antagonistic departments (Buchanan and Badham 2004). In any case, by distressing functional relations of coordination, horizontal conflict can compromise an organization's set of established procedures, policies and workflows. In this situation, type 0 change may assist managers by (a) adjusting the division of work and redefining roles and responsibilities, and (b) creating or improving channels of communication, and enhancing commitment and coordination among mutually dependent organizational units. Process-reengineering programs, for instance, may bring contesting parties together to deliberate and reduce task disagreement. Similarly, collective target schemes (e.g., Six Sigma programs) can be introduced to align subunit goals, and socialization and team-building interventions can be implemented to increase (social) cohesion in the organization (Ashforth and Mael 1989; Podsakoff, Whiting, Podsakoff and Blume 2009). All these interventions have in common the potential to improve communication, increase coordination and adjust the division of tasks.

Thus they can potentially contribute to mitigate horizontal conflict.

Conversely, type E changes may be ineffective and even counterproductive, given horizontal conflict. First, type E changes primarily affect structures. Given the conditions of horizontal conflict, such changes as downsizing, outsourcing, or delaying may deepen confrontation between antagonistic subunits. For instance, downsizing programs are more likely to affect staff than line positions, potentially escalating conflicts between staff and line departments (Koontz and Wehrich 2007). Second, reliance on external consultants, typical of type E initiatives, is likely to breed internal resentment and hostility (Beer and Nohria 2000; Cummings and Worley 2008). Attempting to solve horizontal conflict by implementing type E reorganization might in effect breed vertical conflicts.

Hypothesis 3—Perceptions of horizontal structural conflict will increase the likelihood of type O reorganizations, relative to type E reorganizations.

Research design

Data

As in Chapter 1, we used data collected from a survey among Dutch managers. However, because several variables of interest were included only in the second wave of data collection, the analysis that follows uses cross-sectional data collected in 2006. The sample used below consists of 238 top managers of private organizations operating in the tertiary sector (financial services, transportation and logistics, and general services like hostelling, catering, and legal services), with complete information as to all variables central to this analysis.

Reorganization

We used three measures of reorganization. All measures are based on self-reports and focus on interventions planned and implemented by the management of the organization. First, we measured *incipient change*. Managers were asked whether they intended to implement any reorganization in the near future, by the time of interview. Of the sampled managers, 31% reported planned incipient change. Second, in order to capture *type E change*, we asked managers whether they were implementing changes initiated by the management that affected the structure or general configuration of the company, such as merging, downsizing and delayering initiatives.² Response was coded dichotomously (i.e., 1: change; 0: no change). Of the sampled managers, 38% reported occurrence of type E change. Finally, respondents were asked about *type O changes*, operationalized in the interview as changes implemented by the management in human resources, finances, or production policies, such as introducing total quality programs, new training programs or process reengineering. As before, the response was coded dichotomously. More than half of the sample (57%) reported this form of change. Overall, 40.2% (N=201) of sampled managers who reported type O change, also reported type E change.

Structural conflict

We used four measures of (perceived) structural conflict. *Vertical conflict* was measured with two questions. The first item was

² This is not a multi-category measurement but a single item intended to measure type E change as a general event. This is also the case for the measurement of type O change.

“Does your organization experience problems regarding conflicts between managers and employees?” (VC1), and the second was “Does your organization experience problems regarding conflicts between the top manager(s) and the leaders of the different departments?” (VC2). Answers in both cases range from 0: no problems to 3: severe problems. *Horizontal conflict* was also measured with two items: “To what extent do you agree with the statement... ‘There are conflicts because... departments in this organization act first in their own interest rather than in the interest of the organization as a whole’” (HC1); and the statement “Departments do not coordinate” (HC2). Response was registered on a five-point scale ranging from 0: strongly disagree to 4: strongly agree.

Control variables

We included controls in our analyses to avoid confounding results. First, *size* of the organization is measured as the number of departments (departments) and the number of employees on the payroll (employees). The number of *echelons* was measured as the number of hierarchical layers between the highest and lowest official in the organization. Perceived *technological change* was measured by asking respondents to what extent they agreed that technologies required in the work process had changed in recent years. Perceived change in required technical and professional *skills* was measured by asking to what extent respondents agreed that required skills for the work process had changed in recent years. Response codes for technological and skill change range from 0: strongly disagree to 4: strongly agree.

We also used measures of ecological change (cf. Porter 1980; 1985). We measured perceived *competition* with two questions, both on a five-point scale running from 0: strongly disagree to 4: strongly agree: “To what extent do you agree that... the market of your organization is characterized by strong [foreign/domestic] competition” (foreign competition and domestic

competition). Similarly, perceived *vertical dependence* was captured with two items, both with a five-point scale running from 0: strongly disagree to 4: strongly agree: “This organization strongly depends on its [suppliers/customers or users]” (supplier dependence and customer dependence, respectively). The influence of *regulation* was measured with a single item: “In general, is change in your organization affected because it clashes with governmental regulation/legislation?” with a dummy answer category (0: no and 1: yes). Finally, we controlled for economic *subsector*, which captured unobserved heterogeneity among managers across three subsectors: transportation and logistics services (18.6%), financial services (11.4%) and general services (70.6%). Classification was done using the Standaard Bedrijfsindeling Code. Table 2.1 summarizes descriptive statistics for all variables used in our analyses.

Descriptive statistics and method

We were interested in examining the relation between covariates and reported incidence and type of change. In particular, we wanted to test whether differences in recognized structural conflict were related to types of reorganization. First, given that the data is self-reported and was collected through a single instrument, we performed Harman’s one-factor test and exploratory factor analysis on the entire set of variables to check for common method variance. These showed that no single factor emerges from the observed data and that one general factor does not account for the majority of the covariance across measurements (com. variance=14.4%).

Data exploration (see Table 2.1) revealed characteristics of the sample. Measurements of change inter-correlate, which implies that sampled managers who reported one type of change, are also likely to report other changes. There is also a significant positive correlation ($\tau=0.38$, $p<0.05$) between VC1 and VC2, indicating that managers who reported conflicts among management

TABLE 2.1 Different reorganizations, conflicts and controls

	Min: Max	M	SD	17.	16.	15.	14.	13.	12.	11.	10.	9.	8.	7.	6.	5.	4.	3.	2.
1. Type E change	0:1	.38	-	-.00	-.09	.11	-.06	-.03	-.00	.10	.05	-.04	-.01	.02	.01	-.01	.16	.13	.21
2. Type O change	0:1	.57	-	-.05	.05	.04	-.02	.06	.07	.12	.07	.03	.07	.15	.10	.07	.06	.25	
3. Incipient change	0:1	.31	-	-.07	.21	.06	.08	-.07	.00	.22	.14	.03	.09	.05	.18	.14	.07		
4. VC1	0:3	.46	.66	.06	.11	.03	-.01	.05	-.02	.07	.03	.05	.12	.10	.20	.15	.38		
5. VC2	0:3	.71	.74	.04	.14	.05	.14	.05	.03	.09	.03	.01	.03	.12	.13	.16			
6. HC1	0:4	1.47	1.06	-.04	-.01	-.08	-.08	.05	-.03	.07	.03	-.02	.11	.05					
7. HC2	0:3	1.27	.97	-.03	.07	.04	-.02	.04	.03	.07	.07	.06	.14	.10					
8. Departments	1:50	6.25	5.55	.05	.03	.04	.03	.06	.03	-.04	.04	.18	.41						
9. Employees ^a	5:1400	70.00	221.6	.02	.06	-.04	-.06	.09	.03	.05	.01	.28							
10. Echelons	0:7	2.24	1.45	-.07	.01	-.02	.01	.12	.10	.04									
11. Technology	0:4	2.38	1.22	-.06	.04	.12	.09	.09	.07	.38									
12. Skills	0:4	2.55	1.11	.03	.02	.16	.09	.06	.12										
13. Competition (foreign)	0:4	3.13	1.01	-.04	-.02	.25	-.03	.00											
14. Competition (dom.)	0:4	1.21	1.32	-.27	-.09	-.03	.11												
15. Supplier dep.	0:4	1.82	1.44	-.06	.10	.06													
16. Customer dep.	0:4	3.36	.74	.09	.09														
17. Regulation	0:1	.28	-	.11															
18. Sector	1:3	2.52	.78																

NOTES:

^aMedian is reported instead to account for the influence of outliers
Boxes indicate significant correlations (p<0.05)

and employees also tend to report conflicts between top management and the managers of departments or subunits. In addition, a positive correlation between HC1 and HC2 ($\tau=0.34, p<0.05$) indicates that perceptions of lack of coordination among departments are associated with the belief that subunits put their interest above general organizational goals. Measures of conflict correlate with measurements of size (number of departments and/or number of employees) suggesting that larger spans of control are associated with increased (perceived) conflict in this sample (Blau 1970; Rahim and Bonoma 1979; Williamson 1967). The remaining correlations corroborate typical characteristics of the tertiary sector: for instance, intensive use of skilled labor and strong vertical dependence on customers (Van Looy, Gemmel and Van Dierdonck 2003).

TABLE 2.2 *Different types of conflict (PCA analysis)*

	Factors ^{a, b}	
	<i>Vertical conflict</i>	<i>Horizontal conflict</i>
Conflict between management and employees (vc1)	0.84	
Conflict between management and department leaders (vc2)	0.82	
Departments acting on self-interest first (HC1)		0.84
Departments do not coordinate (HC2)		0.81

NOTES:

^a Extraction method is PCA with Varimax rotation and Kaiser normalization.

^b Only correlations equal or larger than 0.3

After data exploration, we wanted to make sure that our measurements of (perceived) conflict were consistent with the distinction between horizontal and vertical dimensions of conflict. We performed confirmatory factor analysis using all conflict measures (Table 2.2). The results confirm these are consistent indicators of two latent factors [KMO test=0.6; Bartlett's Test:

Approx. χ^2 (3, N=238)=215.7, $p<0.00$], which we map onto our theoretical framework: vertical conflict ($\lambda=1.8$) and horizontal conflict ($\lambda=1.1$) and that together account for 70.5% of observed variance. For each, we calculated a factorial score of structural conflict using standard regression. We used these scores as predictors.

Finally, in order to test hypotheses, we modeled the relation between conflict and change in a series of logistic models. In the first, we modeled incipient change as the outcome of conflict measures and controls. We intended to estimate the overall relation between conflict and the likelihood of planned organizational change in the sample. Next, we developed two sets of models, each using a different type of change as outcome variable. These models were intended to explore the relation between (vertical and/or horizontal) conflict and types of change (type E and type O). We report two models per type of change: full and best-fit models. In both cases, diagnostics indicated that the full model did not fit the observed data and consequently we used Wald's criterion for backward model specification. We report our findings next.

Results

Table 2.3 shows the results of the logistic model aimed at giving more information regarding Hypothesis 1. Results indicate that the full model (including conflict scores and controls) provided a statistically significant improvement over the empty model, χ^2 (14, N=238)=51.82, $p<0.00$. This model accounts for 28% of the total variance. The correct prediction rate is about 76%. Further, Wald tests confirm that scores of both vertical and horizontal conflict are significantly and positively related to the likelihood of (incipient) change, when controlling for size, echelons, perceived technological and skills change, competition, vertical dependence, regulation and cross-subsector heterogeneity. In

terms of likelihood, the CI(95%) of the odds ratios of vertical and horizontal conflict (0.96:1.81; 1.19:2.27, respectively) allow us to conclude that when sampled managers score above average on (perceived) horizontal conflict, they are more likely to report incipient change too, vis-à-vis those who score below average. Unfortunately a similar strong statement cannot be concluded for vertical conflict, but the presence of a positive relation between vertical conflict and incipient change remains interesting ($b=0.27$, $p<0.1$). Overall, we find some support in favor of Hypothesis 1 in that sampled managers who recognize conflict are indeed more likely to also embark on (incipient) change.

TABLE 2.3 *Effects of conflict on incipient reorganization*

	<i>Incipient change</i>	
	Estimates	S.E.
Vertical conflict	0.27*	0.16
Horizontal conflict	0.49**	0.16
Departments	-0.01	0.03
Employees	0.00	0.00
Echelons	-0.03	0.12
Technology	0.06	0.15
Skills	0.51**	0.19
Competition (foreign)	-0.14	0.16
Competition (domestic)	-0.37**	0.14
Supplier dependence	0.08	0.12
Customer dependence	0.24	0.25
Regulation	0.83**	0.35
Differences per subsector ^a :		
Transport and logistics	1.02	0.45
Financial	1.23	0.49
% Correct ^b	76.10	
Sensitivity	90.40	
Specificity	43.10	
Nagelkerke R ²	0.28	
N	238	

NOTES:

^a Reference category is "General services".

^b Overall predictive accuracy.

Sig. Codes: * $p < 0.1$; ** $p < 0.05$

TABLE 2.4 Effects of different types of conflict on different types of change

	Full model		Fitted model		Full model		Fitted model	
	Estimates	S.E.	Estimates	S.E.	Estimates	S.E.	Estimates	S.E.
Vertical conflict	0.29**	0.15	0.29**	0.15	0.04	0.15	0.27**	0.14
Horizontal conflict	-0.06	0.14			0.26*	0.14		
Departments	-0.00	0.31			0.03	0.03	0.02	0.03
Employees	0.00	0.00			0.00	0.00		
Echelons	-0.08	0.10	-0.08	0.09	-0.01	0.10		
Technology	0.06	0.13			-0.00	0.13		
Skills	0.17	0.15	0.22*	0.13	0.21	0.15	0.21*	0.13
Competition (foreign)	-0.03	0.14			0.13	0.13	0.13	0.13
Competition (domestic)	-0.05	0.11	-0.02	0.11	0.12	0.11	0.12	0.11
Supplier dependence	-0.15	0.10	-0.14	0.10	-0.04	0.10		
Customer dependence	0.35*	0.20	0.33	0.21	0.01	0.20		
Regulation	0.33	0.33	0.33	0.33	0.19	0.33	0.19	0.32
Differences per subsector ^a :								
Transport and logistics	0.08	0.39			-0.02	0.37	-0.03	0.36
Financial	0.67	0.44			0.72	0.48	0.73	0.48
% Correct ^b	64.30		63.40		61.80		63.90	
Sensitivity	85.70		85.70		39.20		43.10	
Specificity	29.70		27.50		78.70		79.40	
Nagelkerke R ²	0.08		0.08		0.09		0.09	
N	238							

NOTES:

^a Reference category is "General services".

^b Overall predictive accuracy.

* $p < 0.1$, ** $p < 0.05$

Table 2.4 shows the results of the models that explore the relation between types of conflict (and controls) and two different types of planned change: type E changes (e.g., delaying or downsizing) and type O changes (e.g., process reengineering or HRM interventions). The second and fourth models in Table 2.4 indicate the best-fit model for type E change and type O change, given our data. Both are statistically superior over the respective empty models: χ^2 (7, N=238)=14.72, $p<0.05$ (type E change) and χ^2 (8, N=238)=16.43, $p<0.05$ (type O change).

For type E changes, the fitted model has an overall predictive accuracy of about 63% and explains about 8% of the total variance. Further, it shows a positive and significant relation between vertical conflict and type E change ($b=0.29$, $p<0.05$), when controlling for number of echelons, changes in skills, domestic competition, vertical dependence and regulation. For type O changes, the fitted model has an overall predictive accuracy of about 64% and explains 9% of the total variance. This model shows a positive and significant relation between horizontal conflict and type O change ($b=0.27$, $p<0.05$), when controlling for the number of departments, changes in skills, competition, regulation and subsector. These results provide evidence supporting hypotheses 2 and 3 in that, in our sample, type E change significantly correlates with vertical conflict, whereas type O change is associated with horizontal conflict.

Discussion

In approaches to planned organizational change, the structural conditions that relate to qualitatively different reorganizations have been somewhat neglected (Robertson, Roberts and Porras 1993), particularly the relation between conflict and type E and O reorganizations. In this chapter, we proposed that differences in structural conflict arising from formal differentiation in the organization contribute to explain why managers opt for different

types of reorganization. We tested this proposition using data from a sample of Dutch managers working in the tertiary sector. We found evidence in favor of the idea that perceived conflict across vertical and horizontal fault lines correlates with different forms of planned organizational change. Namely, statistical models suggest that sampled managers who recognize vertical conflict were also likely to report type E changes; whereas managers who perceived horizontal conflict were likely to report type O changes instead.

However, at least two limitations need acknowledgment. First, the data we used in our analyses comes from Dutch-only managers in a specific economic sector. This poses the question as to whether observed effects are observable in other samples. For example, differences as to “conflict cultures” (i.e., socially shared norms for how conflict should be managed) may have important implications for a full-fledged study of conflict arising from structural differentiation (Gelfand, Leslie, Keller and De Dreu 2012; Parker and Bradley 2000). Perhaps structural conflict, as defined above, is sector-dependent (e.g., in some sectors like the creative industries, discrepancies may be encouraged rather than a source of concern for managers). Also, the structural possibilities of type E change or type O change might differ across economic sectors (e.g., managers in public enterprises simply may not be able to implement aggressive structural adjustment without legal mandate or strong political leverage; Nieto Morales, Wittek and Heyse 2013). Hence, future cross-cultural and sectorial work would be highly appropriate, both to explore further nuances and assess the external validity of our findings.

Second, since our focus is on conflict and planned organizational change, we decided to rely on self-reports. Sampled managers were selected precisely because they were in an advantageous position to inform us about reorganizations and their perceptions of structural conflict in their organizations (Gerhart, Wright, McMahan and Snell 2000; Huselid and Becker 2000). Nevertheless, future research may greatly benefit from collecting

additional data from complementary sources as well as multiple informants in each organization. Despite these limitations, we believe our argument and findings have three important implications for management theory and practice.

First, our reasoning stressed the connection between structural characteristics of hierarchies and heterarchies, the form of organizational conflict and type of reorganization (see also Kolb and Putnam 1992). Based on this, we explored the implications for a theory of reorganizations. The implication of our results is that reorganizations can also be seen as a way of managing conflict. That is, there is an implicit functionalist argument that comes largely in three steps: (a) differentiation of authority and responsibility hatches conflict; (b) once managers perceive conflict, they have the incentive to mitigate it, and (c) launching specific forms of reorganization may be a response to specific forms of conflict, that is, an attempt to mitigate conflict. We showed that in our sample, perceptions of conflict correlate with increased likelihood of reorganization, and differences in conflict relate to differences in the type of reorganization. This evidence supports the underlying argument. If corroborated by further research, this may add support to the idea that managers do not reorganize based only on considerations related to business and ecological contingencies, but that the propensity to embark on reorganizations can also be attributed to differences in structural conflict.

Second, our study showed that vertical and horizontal conflicts may well be related to different types of reorganization. This may shed added light on why some forms of reorganization are more or less common (frequency of reorganizations), and more or less effective (i.e., whether reorganizations do mitigate concrete forms of conflict). For instance, Beer and Nohria (2000, 134) claimed that type E reorganizations are more common in companies where corporate boards readily push for swift reorganization. If our argument holds, an additional explanation to Beer and Nohria's observation is that higher rates of type E reor-

ganization not only respond to general financial pressures, but also to the possibility that managers likely include considerations related to vertical conflict in their diagnosis—for example, improving troublesome labor relations. Conversely, one study found that in a representative sample of Dutch innovating companies, the majority (69%) were implementing changes in internal policies and processes, that is, type O changes (CBS 2013)—incidentally, note also that overall in our Dutch sample managers reported more type O change (57%) than type E change (38%). These differences may be ascribed to whether managers in these organizations are more or less exposed to horizontal conflicts, relative to vertical ones. Of course, we do not pretend to explain these differences solely on the basis of structural conflict, nor do we want to imply that it is possible to do so. Nevertheless, the observation stresses the possibility that various organizational structures may set conditions for particular reorganization practices. For instance, companies with a complex division of work may be more prone to horizontal conflicts and thus type O reorganization may be more effective in mitigating conflict.

Third, if structural conflict is indeed associated with reorganizations, as we hypothesized, then reorganization might in effect lead to lower levels of (perceived) conflict rather than increased ones, of which the latter is an implicit assumption in the literature on change management (see e.g., Palmer, Dunford and Akin 2009; Streatfield 2001). We do not suggest that reorganization generates no resistance, or that conflict can be mitigated solely by reorganizing. We simply point out that reorganization may counterbalance managerial perceptions of conflict (see also, McKinley and Scherer 2000). Another issue is that if managers attempt organizational change to mitigate (beliefs of) conflict, reorganization may not necessarily boost or improve organizational performance. This may seem counterintuitive given the deep-rooted idea, especially in popular OD literature, that change is necessary for organizational survival and performance (Janod and Saint-Martin 2004; Langley et al. 2009). However, our argu-

ment concedes the possibility that reorganizations, as an instrument of conflict mitigation, may not affect organizational performance at all, or may do so negatively. To illustrate this, consider the case of interventions that respond to false beliefs of conflict. In these cases, managers who perceive either vertical or horizontal conflicts are likely to also implement reorganizations, even when conflicts do not objectively exist or were effectively misdiagnosed. Diverting valuable resources into unnecessary reorganization may affect the performance of the organization.

The above points offer possible implications for our argument and interesting avenues for future research, as we shall discuss below. For now, this chapter shows that there is room for further specification of internal structural conditions that motivate managers to embark on forms of reorganization, an observation that may have relevant consequences for organizational strategy and development.