

Measuring the Impact of Organizational Conflict

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ABSTRACT

Conflict is an inevitable phenomenon in organizational affairs, often necessary for participatory governance. It cannot be eliminated; however its negative impact can and should be contained. Managing the impact of conflict requires a robust and holistic measurement mechanism that can identify and assess the impact, and monitor and evaluate its management. To this end, a study spanning several months was carried out at a public sector international organization. This article draws from its findings, offering an insight into approaches to framing the essence of organizational conflict and using the art and science of risk management to capture its impact holistically.

KEY WORDS

Measurement, accountability, participatory governance, risk management, ombudsman

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INTRODUCTION

“Measure what is measurable, and make measurable what is not so” — Galileo Galilei

Conflict resolution practitioners often get to see both sides of stories that knock on their doors, organizational ombudspersons especially poised to see more than two sides — bigger pictures including systemic trends and patterns in workplace conflict, root causes and plaguing conditions perpetuating it, and the detrimental impact of conflict on various constituencies including its workforce, the organization, and its clients. This privilege comes straddled with the opportunity of driving transformational change within organizations’ conflict management culture — change which can be systematically measured, monitored, and evaluated.

PURPOSE AND RELEVANCE — THE NEED TO MEASURE

A previous study about controlling conflict costs (published in the Journal of the International Ombudsman Association in 2011) indicated the need to develop robust measurement mechanisms, and pointed out, that without measurement, conflict management in organizations risks being limited to issue resolution and transactional changes to systemic problems. It does not extend to a systematic basis upon which an organization's conflict resolution strategy can be evaluated nor its performance on conflict management be appraised for its overall impact on the organization.

In addition to the what the study point outs, measurement offers a sound basis to gauge the efficacy and adequacy of existing conflict management establishments within organizations, such as an Ombudsman's office; a basis to enhance the role of the Ombudsperson in participatory corporate governance; and a basis to evaluate any need to mainstream conflict management by embedding it into operational processes.

With this theme as the impetus, a qualitative research study spanning approximately seven months was conducted at an international organization in the public sector. The research methodology was a case study of conflict within one agency of the international organization and involved document desk reviews; semi structured interviews and informal discussions; and on-site observations. Publicly accessible sources, internal sources, and proxy data (where data for the agency or broader organization was unavailable or non-existent) was used for the purpose. In order to better inform practice and build a rooted business case, rigorous inter disciplinary theory was relied upon. Overall substantive support was extended by the Ombudsperson's office, which has in the past driven efforts to raise awareness of the costs of conflict, and continues to do so. The idea behind this work was to step up those efforts and translate them into an actionable approach to conflict cost measurement.

The aim of the study was as follows:

1. Identify a holistic, scalable, and integrative approach that would measure the impact of internal conflict on the organization's strategic objectives, in other words, the real cost of conflict.
2. Assess the effectiveness of the organization's Conflict Management System (CMS)¹ in managing the impact of conflict, and where relevant, to recommend strategies for the CMS to expand and evolve.

FRAMING ORGANIZATIONAL CONFLICT

Challenged by the subtle dangers of reification, a deliberate choice was made to refrain from strictly defining the term 'organizational conflict' or delimiting its boundaries. During the course of the study, it was found that so much of what the term 'conflict' denotes lies in the eyes of the beholder, and this is stated based on several unstructured interviews conducted with people outside the ombudsperson's office — to some it is simply a disagreement among people and no more, to others, the real conflict is not so much the manifest effects, but underlying structural causes and systemic failures which are sources of problems, and to others still, it is unregulated dynamics within the self, causing unreasonable expectations and conduct. To practitioners in the field of conflict resolution, it is perhaps all of the above, and more.

Of significance here is not so much what the term 'conflict' means to people in an organizational context, but how such understanding colors general perception of the role of the Ombudsperson in internal control, and of the services an Ombudsperson's office can provide in promoting principles of good governance. This is especially true in organizations where Ombudsperson's channels are nascent and evolving, and demand for their services must sometimes be created in the midst of other actors in governance such as Ethics, Audit, and Investigations units. Measuring the impact of conflict as a tool for good governance would be somewhat like applying a blue ocean strategy² (BOS) — creating an uncontested market space by offering a leap in value.

In order to develop a clear understanding of the phenomenon without defining it, the first stage in the study involved constructing a theoretical framework as the basis to discover the characteristic features of the multi-dimensional phenomenon. Deconstructing the phenomenon into broad elements including issues and trends involved; causes, conditions and context; impact of conflict on various constituencies; and the role of the existing conflict management system, fundamental aspects were probed in detail. Aspects such as the extent of reliance on volume of cases as a measure of severity and potential threat; cognizance of factors inhibiting conflict from surfacing; hidden markets clustered around cultures of sorts; sphere of outreach and influence of the CMS; recognition of multiple root causes and chronic conditions; attribution of causes to both, agency and structure; the socio-political context within which the organization operates; and the wide ranging impact of conflict, were analyzed. Using proprietary and proxy data, the conflict system comprising the four elements (issues and trends; causes, conditions, and context; impact and costs of conflict; the CMS) was viewed in its entirety.

A deep dive using the optic of social science theories helped cull out characteristic features of the conflict system, such as interconnectedness and interdependence, reciprocal and bidirectional causality, non-linearity, complexity, and unpredictability. Conflict within the organization examined, was found to be a dynamical system encompassing the interplay of the elements (issues, causes, impact, and CMS) mentioned earlier, which interacted in complex and nonlinear ways. According to Dynamical Systems³ Theory (DST) in social psychology, because of the

complexity of interactions among various elements in a system, the system as a whole evolves in seemingly unpredictable ways, and the activation of each element is determined by the total influence from other elements in the system. Dynamical systems are held together and kept in place by strong attractors. An example of an attractor in an interpersonal conflict is a strongly held view of the other party, such that even contradictory information is interpreted so that it is in line with the strongly held view, thus keeping the conflict in place.

In the context of the organization examined in this study, a strong attractor for the conflict system was the organization's culture of accountability in all its facets — from a strategic high level accountability of the organization as a whole to meet its objectives and serve its clients, to the accountability of the organization's senior management to its executive board for the efficient stewardship of its resources, to the accountability of each member of its workforce to display ethical conduct, et al. Concern for greater accountability is consistently echoed in the reports of the ombudsperson's office for the relevant international organization examined.

So how does one approach conflict resolution in such a complex and multi-dimensional conflict environment? On the aspect of conflict resolution, DST points out that any attempts to change the state of conflict without changing the attractors that continually reinstate the conflict may yield short term results, but are unlikely to succeed in the long run. The theory further states that lasting change can be promoted when the attractors in the system are changed.

In the context of the organization studied, a robust and holistic measurement and management model would be an attempt to foster such a lasting change by promoting accountability which is a strong attractor in its conflict system.

APPROACH TO MEASUREMENT

The quest is not to measure the phenomenon in its entirety — it is to measure the intermediate and final impact of conflict. One might then question the need to study the entire system and its characteristics instead of focusing one's gaze solely on the impact. This is because the impact of conflict on employees, the organization, and its clients, is ever changing according to Dynamical Systems Theory. New issues, trends, causes, and conditions can cause the impact and costs of conflict to be felt in ways not experienced before. Emerging studies can shed light on perspectives which may have escaped conscious attention in the past. For instance, a report published by Earth Institute Columbia University in 2012 based on decades of research on happiness, shows happiness and satisfaction to be directly correlated with workplace aspects including measures of job security, autonomy, workplace trust, independence, and intrinsic motivation at work, rather than only pay at work.

That the impact of conflict in a state of perpetual evolution is not only common sense, but is grounded in rigorous theory. Applying Dynamical Systems Theory to an organizational conflict context, studying the impact of conflict in isolation is likely to offer at best a myopic vision. Any measurement models built on impact assessments alone and using sub-elements of impact as inputs to arrive at summary statistics, risk being less comprehensive and rigorous, and having a restricted worldview. Such inputs might include sub elements such as absenteeism, presenteeism, productivity and efficiency losses, stress induced healthcare costs, litigation expenses, reputational damage, high turnover, and others.

The impact is a key subject of inquiry — were it not for the detrimental impact of conflict, disputed issues and root causes of conflict would be relegated to mere transactional occurrences and unavoidable costs of doing business incurred in the pursuit of the organization's mission — not intrinsically motivating enough to warrant change. Measuring the impact of conflict provides a business case for conflict management to be part of the corporate governance agenda, and showcases how the two are intertwined. Measuring the impact holistically, rather than in isolation invariably helps draw attention to the causes and conditions which lie at the source of all disputes. In other words, it is necessary to study the characteristics of a conflict system as a whole if lasting change is to be promoted.

Studying the nature of the conflict and framing its characteristic features is essential to identifying the attributes one must look for while selecting a measurement approach — this could differ for organizations. On a more general note, some theorists suggest that factors while selecting a measure should include content validity; reliability; and precision i.e. whether the measure captures the concept; whether it yields consistent results; how finely can it be expressed (for example measures could use high, medium, low rankings; ranking on a numerical scale; or more precise quantification). In the context of the organization studied, all the factors mentioned above were considered. In addition to these considerations, practical aspects such as scalability and ease of integration with business processes were also kept in mind. Using these parameters three measurement approaches were evaluated, including constructing a Composite Index from the ground up; adopting and integrating external tools such as Conflict Cost Calculator⁴; and maximizing the use of the organization's ERM framework. ERM was found to be the approach most fit for the purpose and concepts discussed in this article.

In order to measure the uncertain and unpredictable impact of conflict, it is important to determine what it represents. Viewed from the perspective of the examined organization's risk management strategy, (one of its key tools to strengthen accountability within the organization) uncertainty associated with the impact of conflict presents both threats and opportunities. Initiatives such as The Committee of Sponsoring Organizations (COSO) of the Treadway Commission⁵ dedicated to providing thought leadership on risk management, suggest that all entities face uncertainty and that such uncertainty presents both threats and opportunities, with the potential to erode or enhance value. Events with a negative impact represent threats, which can prevent value creation or erode existing value. Viewed this way, the impact of conflict represents what is widely defined as risk. Some experts in risk management define risk as any

deviation what is expected, including both downside volatility (a range of possible downside events) and upside volatility (a range of possible upside events). This definition, considers risk as the possibility that results may be either higher or lower than expected.

Speaking of expect results, this will vary depending upon the vision, purpose and goals of different organizations. In the context of the international organization examined in this study, expected results are not only what it is expected to deliver to its clients, but also how it conducts itself in the pursuit of its goals. For this organization, whether the impact of conflict represents downside risks or opportunities will depend largely upon the effectiveness of its internal control system and the Conflict Management System. Managed effectively, it could provide opportunities for transformation in organizational culture. If not, it would contribute to ongoing high costs and negative impact for all stakeholders involved, including its clients.

After evaluating other potential approaches, Enterprise Risk Management (ERM) was selected as a rational fit. Enterprise Risk Management, a holistic approach to risk management, is a process in management strategy and is designed to identify events that may affect the achievement of the entity's objectives. Experts in risk management state that ERM is not strictly a serial or linear process, where one component affects only the next. It is a dynamic and multidirectional process in which almost any component can and does influence another.

ERM is a reasonable choice when evaluated against the measurement criteria discussed earlier in this article. It is a valid, reasonable, and precise approach. ERM is embedded into the business practices of the international organization examined in this study, and is a scalable model. ERM's life cycle approach depicted in Figure 1 below allows for risk events to be identified from a risk universe or register, qualitatively assessed and measured by assigning weights along impact and probability scales, development of appropriate response strategies, monitoring and evaluation of results. It is also a key tool at the disposal of the examined organization to promote



Figure 1

accountability. The organization's risk catalogue with broad risk types such as strategic, operational, governance, financial and other risk categories and sub categories serves as a guide to risk identification.

The International Organization for Supreme Audit Institutions (INTOSAI)⁶, points out in one of its reports that the methodology for analyzing risks can vary, because many risks are difficult to quantify while others lend themselves to a numerical diagnosis, stating further that risk evaluation is more of an art than a science.

EFFECTIVENESS OF THE CONFLICT MANAGEMENT SYSTEM IN MANAGING THE IMPACT OF CONFLICT

One of the aims of the study as mentioned earlier was to throw light on the effectiveness of the Conflict Management System (CMS) in internal control and in managing the impact of conflict. INTOSAI guidelines on internal control standards state that internal control constitutes a series of actions that permeate an entity's activities and are pervasive in the way an organization is run. It further notes that everyone in an organization has a responsibility for internal control, and that external parties play an important role in the internal control process, by providing information useful to effect internal control.

As inside outsiders, Ombudspersons and other actors within an organization's CMS, play an important role in governance. Evaluating the effectiveness of the CMS in internal control was done using INTOSAI guidelines which provide a basis against which internal control can be evaluated. The guidelines include components such as tone at the top, risk assessment, communication, control activities, and monitoring. The direct and indirect role played by the CMS along each of these parameters was evaluated and it was found that there were considerable opportunities for individual and collective action on the part of actors within the organization's CMS to strengthen internal control. Assessing the risks related to the impact of conflict, measuring them robustly, and vociferously communicating them could help influence the tone at the top and could have a greater impact on the organization's internal control activities.

Making structured risk assessments part of service delivery and standard operating procedure of the CMS, and collective action on the part of the CMS would create a force field giving the conflict management discussion a seat at the enterprise risk management table. This could be done in several different ways, one of which is to form a working group with representatives from different parts of the organization. A working group would be ideal to develop a shared understanding of organizational conflict and the reasonably foreseeable risks its impact poses (which are perhaps going unheeded); to develop robust action plans to identify, assess and strategically communicate these risks to the organization's administration. The idea here is to expand the CMS from distinct offices and units, to the enterprise as a whole (i.e. embedded in business processes). It is similar to having checks and balances for compliance — organization's set up compliance offices, but compliance remains everybody's business. The impetus to have

stringent checks and balances is due of the impact of non-compliance in the form of regulatory penalties et al. Similarly, unless the impact of conflict pinches the corporate agenda, there will be little incentive to transform. Collective action on the part of the CMS using ERM could potentially move the needle in that direction.

An additional recommendation is to go beyond the qualitative ERM process described earlier, and make risk reporting even more precise by quantifying the impact of risks. This means, in addition to qualitatively measuring the risk, efforts could be made to quantify risks. An external ERM expert consulted during this study recommended identifying risks by source, and working with worst case scenarios for the purpose of assigning qualitative scores on the probability scale, and having a few clearly defined key metrics in order to capture the impact on the organization's end objectives. Using several numerical methods, individual risk scenarios and the impact of integrated risk scenarios / risk interactivity can be quantified to arrive at enterprise risk exposure values, and a single statistic incorporating all the downside risk. The expert consulted stated that even risks which appear very subjective in nature such as poor management can be quantified using a deterministic approach to risk scenario development, which involves human judgment rather than automated processes. This is especially important in the context of conflict situations which are often fraught with subjectivity and lack of objective and quantifiable data. An example of a deterministic risk scenario is a conflict situation in which due to poor management in a certain business segment, the unit experiences high turnover, loss of critical employees, absenteeism, all of which impact the productivity of the unit, and adversely impacts the reputation of the organization and business unit. Reputational damage, in turn causes loss of funding, and the unit fails to meet its strategic objectives. This approach also helps identify the source and facilitates decision making which addresses the root cause.

In addition to making risk reporting more precise, quantification offers another way to measure the value of service provided by an Ombudsperson's office — a mitigation related service, the value of which can be measured as its impact on the organization's end objectives. As the risk expert's recommended method suggests, the value being positive if its contribution to objectives due to lowered risk exposure is greater than its detraction from objectives.

CONCLUSION

Given the hierarchical nature of the organization studied, it is the tone at the top which has overall influence on structuring control activities, and implementing change initiatives. The extent to which the CMS is able to influence decision making at the top will determine the extent to which it can expand to become embedded in day to day business processes. Concurrently, this will also mean that the CMS evolves to a more preventive system in which the negative impact of conflict can be contained early on or even nipped in the bud. Impact assessments help establish the business rationale for this, and ERM offers a scientific platform to measure the real costs of conflict. It needs to be harnessed effectively by the CMS in order for conflict management to become part of the corporate governance agenda.

ENDNOTES

¹ The scope of the CMS in this study was limited to the Ombudsman's office, the Ethics Office, and the Audit Office.

² Kim and Mauborgne, professors of management strategy at INSEAD, coined the term 'blue oceans'. In their book 'Blue Ocean Strategy', they describe blue oceans as unknown and untapped market space, which can be created by reaching beyond existing demand by focusing on noncustomers and offering a leap in value. Applied mainly in industrial growth and economic policy, the use of the term in this paper is limited in scope and meant to highlight the untapped market space for an Ombudsman's services.

³ Nowak and Vallacher in their book 'Dynamical Systems in Social Psychology' state that DST has proven useful in understanding diverse phenomena. They state that elements in a dynamical system interact in complex, reciprocal and non-linear ways. Elements are interactive in nature and it is the pattern of causal relations that shapes the phenomenon, rather than any causal mechanism in isolation. The basic feature of DST is connectionism i.e. the activation of each element is determined by the total influence of all other elements across connections, its architecture resembling that of the nervous system. In non-linear systems, the effects of changes in one variable are not reflected in a proportional manner in others. According to DST, dynamical systems are kept in place by strong attractors which are coherent states that emerge over time from the interaction among elements, and that lasting change can take place when attractors in the system are dislodged or changed.

⁴ Developed by Daniel Dana of Mediation Training, the 'Dana Measure of Financial Cost of Organizational Conflict' projects a summary statistic by using objective and quantifiable data inputs in a tool box.

⁵ Organized in 1985 COSO is a private sector joint initiative of the Institute of Internal Auditors, American Institute of CPAs, American Accounting Association, Financial Executives International, and The Institute of Management Accountants.

⁶ INTOSAI is an umbrella organization for the external public sector audit community. INTOSAI Guidelines for Internal Control Standards for the Public Sector serve as a living document reflecting general principles, ethical values, and standards for the design, implementation, and evaluation of internal control.

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