

HIGHPOINT ASSOCIATES: INSIGHTS

UNLOCKING THE HIDDEN VALUE OF CONFLICT

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Unlocking the Hidden Value of Conflict

To grow, transform, and succeed, companies need to change in ways that make them better and more successful; and in many cases, they must do so with limited time, energy, talent, and countless other resources. These constraints require leadership and management teams to make substantive choices about objectives, methods, roles, rewards, and other material issues. A natural result of making these choices is *conflict*. In fact, *choices* and *conflict* go hand in hand: While conflict of any kind often gets a bad rap – both in our everyday lives and in the business world – what I refer to as **“first-order” conflict** is essential. This particular kind of constructive conflict is created by issues of substance that involve choices where the tradeoffs between those choices are meaningful. In these instances, conflict is the forcing mechanism that makes us think through options, potential consequences, and ultimately, the choices we must make.

Groups, like individuals, must regularly make critical choices, processing and mentally calculating the pros and cons of those choices. The resulting conflict has the possibility of generating creative tension that can lead to exciting new innovations. It can also drive groups to think more deeply and ultimately make better decisions. For high-performing teams, it can force them to explore the boundaries of what is possible and what is not possible in order to maximize progress. All in all, first-order conflict is highly valuable – but only when managed effectively.

WHEN FIRST-ORDER CONFLICT GOES WRONG

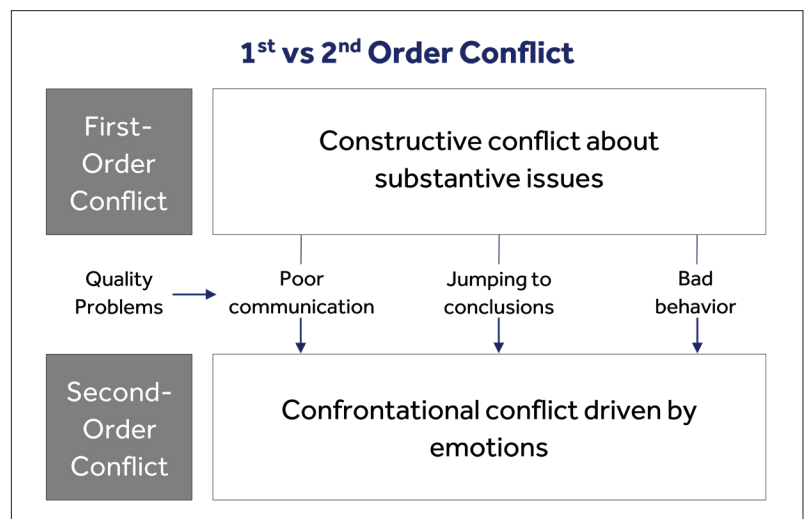
A couple of years ago, I worked with the CEO of a large industrial company. The CEO was the kind of corporate leader you want to work with: He was a good communicator, smart, ambitious, and driven, while also being a caring and considerate businessperson. His goal was to have his company be an early yet savvy adopter of digital technology. I worked with the CEO and his Executive Team to build a digital vision for the company. Like the CEO, the resulting vision was smart and ambitious, and his team communicated their full support for the vision.

After the vision work was completed, a small strategy team developed a proposal for managing the transformation. This team proposed forming a new cross-functional organization – a Digital Transformation Office—to plan and execute the transformation. They made the recommendation to the

Executive Team, and with lots of good discussion and head-nodding, the meeting seemed to go well. As it was ending, however, the CEO got very quiet and seemed to be mentally surveying his team. He thanked everyone and said he wanted to spend some time thinking about it.

The meeting adjourned peacefully, and everyone went back to their offices. That is when conflict erupted: Back-channel phone calls were made, concerns raised, and coalitions formed. The Executive Team moved from vocal support to covert conflict, and the proposal for a Digital Transformation Office was in trouble.

The proposal surfaced the first material choice on the path to the digital vision: The Executive Team could have had a healthy discussion about the proposal and dealt with this constructive, first-order conflict quickly and effectively. Instead, they generated a whole new layer of **second-order conflict** that would take two months to unravel and resolve, creating plenty of collateral damage along the way.



ALL CONFLICT IS NOT CREATED EQUAL

“Second-order” conflict is something altogether different than first-order conflict. It is a layer of destructive conflict generated by the poor management of first-order conflict. This kind of negative conflict results from a failure to communicate, misinterpretation of what is communicated, misaligned incentives, and poor behaviors like bullying and passive-aggressiveness. Second-order conflict is in no way constructive and is often riddled with anger, disappointment, blame-shifting, and hurt feelings. One way to view it is as a break down in conflict process management: When there is a failure to process first-order conflict constructively, the result

is a defective or toxic conflict that needs to be addressed and corrected as soon as possible. If poorly managed or avoided for long periods, second-order conflict can grow exponentially into a massive *conflict debt* that makes constructive management of first-order conflict almost impossible. Paying down this conflict debt can be very difficult due to the amount of time required to deal with emotional issues, lost trust, and other collateral dysfunction.

5 REASONS FOR POOR FIRST-ORDER CONFLICT MANAGEMENT

The root cause of second-order conflict is poor management of first-order conflict. Here are the primary reasons organizations fail to manage first-order conflict successfully:

1. Conflict Avoidance Mindset

Humans have been socially conditioned to avoid conflict and protect group harmony, or at least the illusion of group harmony. An ability to form groups of likeminded people and collaborate is part of what has made the human species so successful. Survival and success as individuals is based on the survival and success of the groups we belong to and contribute to. Business is one of those groups. As in society, people working within companies see conflict as something bad for cohesion and harmony. We're told to get things done and get along while doing it: Don't rock the boat, mind our own business, etc.

For most people, the word "conflict" itself suggests arguments, confrontation, and fighting, escalating up to full-scale war. Even the words we use when discussing conflict reveal how we view conflict socially: We talk about people taking and defending positions, attacking weak points, and shooting down ideas. Engaging in conflict with our group/company can be very risky to our status within the group/company. At the extreme, if we engage in too much conflict, we risk being exiled from the group, e.g. passed over for promotion, left out of meetings and off committees, or fired. The result is a mindset that we are better off if we avoid conflict. However, when we avoid first-order conflict, we generate second-order conflict, which is much harder to handle.

2. Misaligned Incentives

One of the great challenges of managing any type of group endeavor is balancing group versus individual accountability. We want the group to succeed, and we also want to make sure everyone is pulling their weight. As a result, there is a strong tendency to try to unbundle group objectives into individual objectives. At face value, this isn't the worst idea, and may even seem logical. Still, there are two significant flaws with this approach that can

Coined by Liane Davey, noted business strategist and team advisor, **conflict debt** is "the sum of all the contentious issues that need to be addressed to be able to move forward but instead remain undiscussed and unresolved."

derail a group's ability to effectively process first-order conflict: First, it drives divergence of objectives that can make conflict resolution very difficult. If everyone is trying to get to a different destination, how can we possibly agree on the method to get there? Second, it forces conflicts to become win-lose propositions by blocking the give-and-take discussions that would typically lead to win-win solutions. Misalignment of incentives is a surefire recipe for creating second-order conflict, as there is no single option that meets the nuanced needs of all involved parties.

3. Inadequate Communication

Contrary to our perceptions, humans do not effectively communicate with one another. Even the most skillful communicators share the minutest fraction of what they are actually thinking. Further, people on the receiving end of communication retain a small percentage of what they hear. This gap between what one person communicates and what the other person hears results in a fragment of what someone is thinking actually being absorbed by the other. The problem worsens when communicating with close associates and other familiars: Culturally, we experience something called "close communications bias," which means we assume other people close to us—like our team—already know what we know. The result is we communicate even less. This assumption makes resolving conflicts challenging because our starting point is already a misunderstanding.

It is astounding how pervasive and severe this communication problem is: In fact, an [MIT Sloan School of Management survey](#) illustrates perfectly the magnitude of this particular stripe of misunderstanding. In it, 4,012 executives, managers, and supervisors across 124 companies were surveyed. It was discovered that only 51% of top team members could accurately list their company's top three priorities. At the middle manager level, only 18% of managers could list their company's top three priorities. With this level of confusion, disagreements and missed expectations are the norm. It should come as no surprise that second-order conflicts are an enormous problem when you consider the inadequacy of our communication.



Source: No One Knows Your Strategy - Not Even Your Top Leaders, *MIT Sloan Management Review* February 12, 2018

4. Jumping to Mistaken Conclusions

A remarkable feature of the human mind is our ability to fill in the gaps. While we may only receive a small fraction of the information communicated to us, our minds insert any missing details. We use our prior experiences and imagination to extrapolate from limited data. This ability to fill in the gaps creates the illusion that we communicate well and understand each other. When we extrapolate from limited communication to explain disagreement, most of us fall into the trap of attributing actions to imagined bad intentions that may not exist in reality. In fact, imagined explanations can often be way off the mark and destroy trust, do significant damage to interpersonal relationships, and lead to the emotional escalation of conflict.

This ability to fill in the gaps by extrapolating also affects how we view data. Our minds seek coherence between our mental narrative and objective data. To create this coherence, our subconscious cognitive biases amplify data and analysis that agrees with our mental narrative and discounts data and analysis that does not. The conflict is not about the data, it's about the differences in our mental narratives and the differing conclusions those narratives drive. This, in part, explains why getting more data is not always helpful.

5. Dysfunctional Behaviors

When we do engage in conflict, our skills for managing conflict are generally not up to the task. Most of us have had very little, if any, training in effective conflict management. The training we do receive is focused on team building, developing superficial trust, and simply being polite and

friendly to each other. Most people don't have the skills required to engage in constructive conflict. Without well-developed skills, people resort to primitive behaviors such as dominance and passive-aggressiveness, which are both widespread and can lead to high levels of unhealthy second-order conflict and failed team relationships.

While there are countless types of behaviors that can cause second-order conflict, the three most common are delegating conflict, passive-aggressiveness, and bullying: Delegating conflict happens when leaders act like conflict doesn't exist or make decisions that are so ambiguous, nobody is sure which choice was decided upon. The most common version of this is a failure to prioritize accompanied by some vague statement about how *all of our top initiatives are top priorities*. When this happens, conflict gets delegated down the organization into the hands of less capable and less knowledgeable people who are then forced to deal with a mess. Passive-aggressive behavior can be debilitating to organizations. This is no truer than when executives communicate and act as if they agree, but then subtly undermine any progress. In large and risk-averse organizations, this type of behavior can be widespread and difficult to counteract, turning first-order conflict into second-order conflict with great efficiency.

In most well-run organizations, overt bullying has become socially unacceptable. That said, covert bullying is still commonplace, whereby a person shuts down information-sharing and tries to force decisions in ways that leave others angry and hurt. Left unchecked, this behavior drives up the level of second-order conflict quite quickly.

“The most important thing in communication is hearing what isn't said.”

-Peter Drucker, influential management consultant and author

CONFLICT MANAGEMENT SELF-DIAGNOSTIC

Conflict management is an inevitable challenge for every company. The question is, is your company constructively managing first-order conflict, or are you letting it devolve into second-order conflict.

Not sure? Ask yourself the following questions about your organization:

- Are conflicts resolved through compromises that later unravel and drive more conflict?
- Do people agree during meetings, then go back to their offices and start lobbying to undermine a decision.
- Do team members complain behind closed doors about other team members being unreasonable?
- Do colleagues get frustrated with ongoing dialogue and become reluctant to discuss the issues?

If you witness these types of behaviors (see a full list of self-diagnostic questions to the right) in your company, then it is official, you have a conflict management problem that is preventing your company from realizing its true potential.

But all is not lost.

ACTION STEPS FOR FIXING A COMPANY'S CONFLICT PROBLEM

If you are interested in unlocking your organization's true potential by harnessing the power of **first-order conflict** and mitigating **second-order conflict**, these steps will help you navigate through it and succeed:

1. Understand the nature of your company's conflict portfolio.

Start with a solid understanding of the nature of your organization's conflict and the quality of your conflict management processes. Use the above self-diagnostic questions to determine if your organization has a constructive or largely dysfunctional conflict management style. If you're struggling with dysfunctional conflict management, perform your own informal root cause analysis. Then, use the following action steps to help build a comprehensive plan for addressing the issues.

If you're already processing conflict well, the last step in this list will provide you with some ideas to make conflict a positive force for change within your organization.

Dysfunctional Conflict Management	Constructive Conflict Management
<ul style="list-style-type: none"> • Do people agree during meetings, then go back to their offices and start lobbying to undermine the decision? • Do people get excluded from meetings because they might disagree? • Are controversial decisions, or communications about controversial decisions, made more ambiguous to make them more acceptable? • Are conflicts resolved through compromises that later unravel and drive more conflict? • Do decisions get revisited and remade at the first sign of conflict? • Are leaders and managers often frustrated that the work products their staff produce fail to meet expectations? • Are employees complaining that priorities and expectations are unclear? • Do people get frustrated with ongoing dialogue and become reluctant to discuss the issues? • Do team members complain behind closed doors that other team members are being unreasonable? • Do cross-functional teams struggle to make tradeoffs that might benefit one function at the expense of another? • When things go wrong, do people try to deflect blame? • In exit interviews, do departing staff complain about poor guidance or communication from their managers? 	<ul style="list-style-type: none"> • Do people feel comfortable exploring the reasons and unspoken assumptions behind disagreements? • Is there a common skill set/framework for managing conflict? • Is conflict used to help surface the best possible ideas? • Are conflicts viewed as opportunities for innovation? • Does the team strive to find innovative ways to integrate conflicting ideas into better solutions? • Is the team able to disagree, but commit to decisions once made? • Is collective success, even if it requires disproportionate sacrifice, the baseline expectation? • Are people evaluated based on the group's success and their contribution to group success, and not just individual or functional results? • Are leaders, managers, and employees able to communicate overall goals, objectives, and priorities in an aligned and consistent manner? • Are there serious consequences for destructive behaviors like bullying and passive-aggressiveness regardless of level and talent? • Is the organization capable of successfully resolving most situations without escalating issues to the most senior leadership?

2. Shift the conflict mindset.

It is beneficial to step back and reframe what your organization thinks about conflict before trying to improve how you manage it. Viewing conflict as constructive collaboration that unleashes co-operative thinking is a healthier perspective than thinking of conflict as *doing battle*.

Changing mindsets in a large organization can be hard, but it can be done leveraging the same methods used to create social movements. Social movements are started by small groups of committed people who have close connections to those around them and strong social influence among their peers. People who know them often want to be like them. This phenomenon makes their new behaviors contagious. In other words, people see them as relatable, trustworthy, and appealing role models. These influencers make others believe that new behaviors are not only safe but something that should be adopted.

The challenge is finding these influencers in your company and transforming them into champions for the new mindset. They can exist at every level within your organization; and ideally, you want to find a diverse group of highly connected and influential people across functions and layers. Talk to them, discuss the problems with conflict management, gather their ideas, help them learn better ways to manage conflict, and have them shape what the conflict mindset should be. Once you have their support and equip them with the skills and tools they need to be successful, send them out to show the organization at large a better way to work together and manage conflict. Give them ongoing emotional and political support; walk the talk and have their backs.

3. Clarify and align incentives.

Every business should clarify and align its incentives regardless of its conflict portfolio. Confusion about goals and objectives can be crippling. Clarify your company's goals and objectives and put in the effort to make sure people understand them and can articulate them with fidelity; don't assume they know them and get people at all levels to demonstrate their understanding.

A second – and for many executives, problematic – step is holding the group accountable for realizing results instead of functional teams or individuals. Many executives hold firm beliefs about the importance of accountability based upon the belief that success comes from everyone delivering their individual results. However, what matters most is the total result produced by the group, not the success of individuals. For example, if engineers can design a great new product but manufacturing can't build it or sales can't sell it, the work of the engineers produces no benefit to the company. Focus on aligning and optimizing the global result, not optimizing the piece-parts. If you want to measure individuals, focus on how their behaviors and actions contribute to realizing group goals.

4. Establish rules of engagement.

Boxing is just a street fight with rules. Likewise, a company can significantly benefit from rules of engagement that establish a framework for expected and consistent behavior and increase trust. Such rules can make conflict management much more constructive and consistent, and make it more likely that conflicts will be resolved as collaborative, first-order discussions that are less likely to turn into second-order, personal disagreements.

While every company should put in the effort to build their own rules of engagement, here is a starting point:

- View conflict as an opportunity for innovation, not compromise.

- Always treat others and their intentions with respect.
- Don't make assumptions about what people think or believe. Don't predict or imagine bad intentions.
- Seek to understand the reasoning and unspoken assumptions behind disagreements.
- Ask people to elaborate if you're confused or fail to understand their reasoning or concerns. Repeat back what you heard and get positive confirmation you heard correctly.
- Use the company's established conflict resolution tools to map out a shared understanding and to find innovative solutions.
- When difficult decisions need to be made, be willing to "disagree and commit" like Amazon does.
- Bullying, conflict avoidance, and passive-aggressive behavior are not acceptable in any company.

The above are some general ideas with simplified language. Once you identify your business' unique rules of engagement, communicate them in a way that will resonate with employees. Don't be afraid to give rules some teeth: People who violate them should be counseled with repeat violators being asked to leave.

5. Develop conflict management skills.

Conflict management is not an innate skill for most individuals, and yet, it is critical to growth. Improving company-wide conflict management requires investment in training people to manage conflict constructively. This training will go a long way to ensure everyone shares the same conflict mindset, skills, and process based on a common framework. Having a singular conflict resolution framework is vital because employing the same set of models, tools, and language for resolving conflict will develop consistency and trust. Some elements of a framework should include how to turn conflicts into negotiations not arguments, ways to discover hidden assumptions (e.g. assume people are well-intentioned then peel back the onion), understanding what is behind "no," and dissolving conflicts through integrative solutions that incorporate the best ideas from all sides of the conflict.

While these skills and tools may seem complicated, in practice, they are so simple even young children can learn to deal with conflict using them. When considering who in your company should get training in conflict management, I strongly encourage your training be company-wide, including crucial personnel from external partners who are deeply involved in your business.

6. Audit and fix broken delegation processes.

While big decisions involving substantive issues drive conflict, they are not the only source of conflict. Processes used to delegate work can also create plenty of low-level conflict. Delegation involves a very subtle form of first-order conflict that can quickly turn into second-order conflict: The person doing the delegating passes down the responsibility to make choices and tradeoffs to a person receiving the delegation. Embedded in this responsibility is the first-order conflict associated with making the necessary choices and tradeoffs.

The problem comes when the delegator fails to communicate the boundary conditions for the first-order conflict resolution. Boundary conditions express the delegator's expectations about timing, form, quality, content, and whatever else is deemed a requirement. They form the proverbial box within which the choices and tradeoffs should be made. Without clear boundary conditions, the delegate must substitute imagined expectations for the delegator's real expectations. And when we try to imagine what other people are thinking, we come up against challenges.

When expectations are not clear, disappointment is sure to follow, leading to second-order conflict in which the delegator and the delegate blame each other for the problem. Like conflict management, delegation is a skill that can and should be taught in a consistent manner to everyone in the company.

7. Seek integrative solutions to conflict.

Conflicts that get resolved through domination or compromise tend to be unstable. Some or all parties to the conflict will be unhappy with the results and ultimately the conflict will re-emerge in some form or another. In many cases, there is a better way to resolve conflicts with integrative solutions that speed progress to goals and address the concerns of the parties involved. While integrative solutions are sometimes called "win-win" solutions, an integrative solution is not about individuals winning or losing, it is about the group winning *together*. Integrative solutions can take different forms. Two common forms are "and, with" solutions and "third-way" solutions.

"And, with" solutions take one of the primary options under consideration and add new elements into the solution to address concerns of the other parties. For example, in a company seeking to reduce costs, one of the leaders HighPoint Associates was working with strongly advocated that the company adopt "Lean"

management principles to improve productivity in its plants. The executive responsible for the plants strongly disagreed, and believed the initiative would fail. Through a collaborative process of exploring underlying concerns, her true concerns became more visible. She was worried her team did not have the skills and time available to make a Lean program successful. Company executives performed research and discovered that to make this program implementation effective, they would need to invest 3-5% of total employee costs into managing the adoption of Lean principles. The "and, with" solution was to pursue the Lean program, and make the necessary investment in training and program management.

"Third-way" solutions are innovative, alternative solutions that break the "either, or" nature of a conflict. For example, a common management conflict is tension between the need for more information technology (IT) solutions and the limited resources available to deliver them. In this scenario, functional project sponsors want their projects done quickly and cheaply, with the list of projects required often exceeding budgeted resources. A compromise can be reached by spreading the IT budget across as many high-value projects as possible, leaving IT overloaded with work and constantly multitasking to get things done. The result is projects take too long and cost too much. In this compromise, no one ends up happy. A "third-way" solution to this problem focuses on how to deliver value as quickly as possible by making sure the highest value projects are not blocked by lower value projects. Traffic jams are eliminated by restricting the amount of work in progress at any given time: Instead of asking IT to juggle lots of priorities and multitasking, IT is directed to focus on a very small number of projects and only release new projects into the workflow as projects are completed. Companies that have adopted this "third-way" solution have seen material improvements in project throughput, IT productivity, and client satisfaction.

If you have a team that can manage conflict well, the above kinds of integrative solutions are all within your grasp.

“Conflict is resolved not through compromise, but through integration.”

-Mary Parker Follett, founder of modern management principles and mother of professional management

Conflict can be a challenging topic even for the most seasoned executives, but it doesn't have to be. When we handle conflict well, it can bring out the best in our teams. When we engage in constructive conflict, we mutually give our time and effort towards understanding each other better and finding solutions that make us more successful as a whole. It is important to keep in mind that you and your organization may find it uncomfortable moving to a new, constructive model of managing conflict. Why? It is far from the norm. But when something is uncomfortable, it means you have to think about it and process it, which leads to mindful change and growth. Those who master this kind of change will surely be advantaged over those who do not.

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Alex Nesbitt is a Senior Advisor at HighPoint Associates, a strategy consulting firm headquartered in El Segundo, CA. Alex has 30+ years of management consulting experience and a strong track record of partnering with CEOs to tackle issues related to strategy, organization, senior team management, operational effectiveness, and performance improvement.

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