

## УПРАВЛІННЯ ПІДПРИЄМСТВОМ

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**O. A. Khilukha**, Candidate of Economic Sciences, Associate Professor,

**I. O. Matviichuk**, Candidate of Economic Sciences,

**L. G. Lypych**, Doctor of Economics, Professor

**O. A. Хілуха**, к. е. н., доцент,

**I. O. Матвійчук**, к. е. н.,

**Л. Г. Ліпич**, д. е. н., професор

### CORPORATE CONFLICTS COORDINATION

### КООРДИНАЦІЯ КОРПОРАТИВНИХ КОНФЛІКТІВ

**Urgency of the research.** Plentiful evidence has now been provided that regulation stakeholders behavior is essential for management effectiveness because it will ensure the regular corporations' development.

**Target setting.** The decreasing of corporate conflicts can promote constructive relationships with stakeholders in the process of understanding communication.

**Actual scientific researches and issues analysis.** Ukrainian researchers focus on studying, which includes outside economics issues as well as conflicts between majority and minority shareholders (O. V. Garagonich [1]). Corporate disputes in Ukrainian conditions are also characterized by lower firm valuations (T. V. Momot [3]). Despite a considerable amount of research, we should develop tools for corporate conflicts management. It should take into account the volatility and uncertainty of the national economic environment.

**The research objective.** This study aims to define the type of corporate disputes, to find methods to manage its destructive influence to the corporate governance.

**The statement of basic materials.** The research defined the level of the corporate tension and the most common organizational disagreement - dissatisfaction with manager's work. The study is coming up with adjustments which are necessary for conflict prevention and methods for its resolving. The study found that 69% of the corporations use mediation as the leading mechanism for conflict resolving

**Conclusions.** This paper defines corporate conflicts and identifies the methods which Ukrainian companies use to prevent and avoid them. The article then develops the link between the value of the key indicators and level of the corporate tension, arguably one of the threats to organizational climate and the performance of the company. Finally, it considers some managerial requisites for dealing and preventing corporate conflicts.

**Keywords:** conflict; corporate conflict types; methods for resolving conflicts; mediation, arbitration; corporate governance.

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**Актуальність теми дослідження.** У сучасних умовах зростає роль і значення управління поведінкою стейкхолдерів, що сприятиме стабільному розвитку корпорації.

**Постановка проблеми.** Зниження кількості корпоративних конфліктів сприятиме конструктивній взаємодії із зацікавленими сторонами в процесі корпоративного управління.

**Аналіз останніх досліджень і публікацій.** Українські дослідники зосереджують свою увагу на обмеженні прав міноритарних акціонерів мажоритарними (O. V. Garaonich, [1]), а також зниження ринкової вартості корпорацій через корпоративну дисгармонію, що представила у дослідженнях Т. В. Мотот [3]. Незважаючи на вагомість досліджень у сфері управління потребує розвитку технологія управління корпоративними конфліктами в умовах нестабільності і невизначеності умов зовнішнього середовища.

**Постановка завдання.** Метою дослідження є розвиток типології конфліктів, удосконалення методів їх вирішення.

**Виклад основного матеріалу.** Авторами було визначало рівень корпоративної напруженості вітчизняних підприємств та найбільш поширена причина організаційних розбіжностей - незадоволеність роботою менеджера. Дослідження передбачає внесення коректив, необхідних для запобігання конфлікту та визначає методи їх вирішення. Дослідження показало, що 69% корпорацій використовують посередників (третю сторону) як засіб вирішення конфліктів

**Висновки.** Стаття визначає корпоративні конфлікти та методи, які українські компанії використовують для їх запобігання та уникнення. Демонструє зв'язок між ключовими показниками та рівнем корпоративної напруженості, яка є загрозою для організаційного клімату та продуктивності компанії.

**Ключові слова:** конфлікт; типи корпоративних конфліктів; методи вирішення конфліктів; посередництво; арбітраж; корпоративне управління.

**Urgency of the research.** Plentiful evidence has now been provided that regulation stakeholders behavior is essential for management effectiveness because it will ensure the regular corporations' development.

**Target setting.** Plentiful evidence has now been provided that regulation stakeholders behavior is essential for management effectiveness because it will ensure the regular corporations' development. Methods by which those conflicts can decreased and the essential ingredients for their prevention

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become relevant, to the behavioral approach of corporate governance. Moreover, if that necessary, managers should regulate organizational conflicts that have arisen between their stakeholders. Corporate practice shows, it's impossible to avoid conflict situations completely. So far, it is more reasonable to find efficient tools, technologies, mechanisms for corporate conflict management.

The decreasing of corporate conflicts can promote constructive relationships with stakeholders in the process of understanding communication.

**Actual scientific researches and issues analysis.** The literature on the topic of conflicts is vast enough. Traditional approaches to elaborate conflicts emphasize such theories the concept of positive-functional disputes by L. Coser [5], Conflict Model of Society by R. Darendorf [6], and the General Theory of Conflicts K. Boulding [4].

Ukrainian researchers focus on studying the issues of the corporate conflicts for its emerging conditions where the enforcement of agency contracts are more problematic (Ye. V. Mishchuk, Ya. V. Kabachenko) [2]. It includes outside economics issues as well as conflicts between majority and minority shareholders (O. V. Garagonich) [1]. Corporate disputes in Ukrainian conditions are also characterized by lower firm valuations (T. V. Momot) [3].

**Uninvestigated parts of general matters defining.** Despite a considerable amount of research, we should develop tools for corporate conflicts management. It should take into account the volatility and uncertainty of the national economic environment.

**The research objective.** This study aims to investigate the definition of conflict, to define the type of corporate disputes, to find methods to manage its destructive influence to the corporate governance.

**The statement of basic materials.** In the early 1990's, corporate privatization occurred to restructure business operations from a government organization to a privately owned entity. That promoted a radical restructuring of the Ukrainian economy. The joint-stock company became the most acceptable organizational structure for large enterprises with lots of participants (owners, investors, and professional managers). Consistent with that situation, Ukrainian businesses dealt with an agency problem. The agency problem or conflict of interest affects companies where company's management is expected to act in stockholders' best interests. Because of that, in joint-stock companies, managers and shareholders (owners) have a lot of contradiction. It is related to the situations where they have the different view how to maximize their wealth. The differences in functions responsibilities, goals, tasks, as well as a variety of company, values, interests, perspectives on problems, can be causes of the conflicts in the work process. Furthermore, managers want to increase their influence and frequently don't care about organizational performance. Therefore, managers and owners need to be capable of resolving such disagreements.

In this paper, we propose using methods and techniques which help to prevent and resolve conflicts as soon as possible and to avoid its destructive influence on the company.

Corporate conflicts appear in everyday organizational routines when employees, managers, shareholders or groups of them interact with others. It is related to the situations where there are any disagreements, contradictions or dissensions. The differences in functions responsibilities, goals, and tasks, as well as a variety of personal qualities, values, interests, views on problems, can be causes of the disagreements in the work process.

The study divided corporate conflicts into several categories. The disputes, which appears because of ownership and control separation: arguments between owners (principals) and managers as well as the disagreements between controlling and minority shareholders.

Horizontal Conflicts refer to disagreements between agents or principals at the same hierarchical stage in the company. Vertical Conflicts relate to disputes between them at the different hierarchical level such as CEO and functional managers.

Intra-Organizational conflicts are a type of conflict that happens within an organization.

They can be helpful in coming up with decisions which will eventually allow it to reach its objectives as a team.

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Inter-Organizational conflicts take place when a misunderstanding arises among different corporations or the corporation' stakeholders. For instance, the research department of an organization can come into disputes with the investors. It is due to different interests of stakeholders. Also, competition contributes to intergroup conflicts to arise.

Functional conflicts are a struggle between individuals who are engaged in dispute but remain together, respect another opinion and no longer at odds with each other. Dysfunctional conflicts occur when information is kept, and emotions distort the content issue.

In this study, both quantitative and qualitative research methods were used to identify Ukrainian corporate conflicts. We formed two target groups of companies. The first subpopulation comprised 40 organizations, represents organizational disagreements and their causes, as well as the principal-agent arguments. It is based on the companies' events which have happened from 2014 to 2016.

The second subpopulation includes 80 joint-stock companies. The database was used to identify the ownership structure and protection mechanism against managers' behavior. The selection criteria included groups of different sectors of the economy. It includes companies involved in the corporate conflicts. It was based on the company information about dismissal, changing of the owner, litigation or arbitration. Annual reports of organizations, news, and analytical reports became the source of the data.

We then chose indicators that companies such as revenue (R), net profit (NP), a quantity of gainfully employed (GE), total assets (TA) and dividends (D) to evaluate the level of the corporate tension. There are some reasons why we choose such indicators.

First, these indicators agree to the operating enterprise principle.

Second, they reflect the development of the enterprise, its growth, and flexibility, which can be sufficient without a favorable corporate climate. Their change shows the business's and management ability to adapt to changes in the environment. In other words, they show a change in the corporate tension.

Third, they are available, because if a company is publicly traded, it must file extensive documentation with the Securities and Exchange Commission.

Fourth, these indicators reflect the most critical commercial characteristics for shareholders, such as economic growth and size of the corporation, return on assets, productivity, and the return on investment for a stock.

Fifthly, dynamics of these indicators are easily controllable.

If the company profit average annual growth rate higher, it indicates that costs decrease and it will set the standard measure for the corporate conflict decreasing. We get the following rates to analyzed characteristics (see equation (1)):

It will work when the growth of the business is beneficial not only for shareholders but also for agents in corporate relations.

$$\begin{cases} 1 < AAGR (GE) < AAGR (TA) < AAGR (R) < AAGR (NP) \\ 1 \leq AAGR (D), \end{cases} \quad (1)$$

In other words, it will provide an integrated and whole evaluation of the balance of corporate interests, the quality of corporate management and give us information about organizational climate. Moreover, we can investigate the correlation of these criteria and identify their coherence, but it is a subject of the future study.

The market value indicator can't characterize the degree of coherence of corporate interests, while the rates of indicators correspond task solution.

The equation (1) is the evidence of the company's development and an indication of the absence of corporate conflicts.

The degree of approximation the real dynamics from the benchmark will characterize the level of corporate tension, as well as its compliance with the shareholders' expectation. Moreover, the equation (1) can be used as a basis for monitoring the activities of corporations of various industries.

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A large number of consequences, which characterizes the financial results of corporate management, creates methodological difficulties for its processing. It makes it difficult to choose the most important of them.

Therefore, we propose a single integrated indicator. It allows removing an amount of information about achieving results. Also, it manages an analysis of both competitors and departments of the same corporation.

We define the system (2) in the matrix to build an integrated assessment without any corporate tension. In other words, it will present benchmark situation ( $C(B)$ ) of the company:

$$C(B) = \{\mu_{ij}\} \begin{cases} 1, \text{ if } AAGR(i) > AAGR(j) \text{ \& } i = j \\ -1, \text{ if } AAGR(i) < AAGR(j) \\ 0, \text{ if indicator } AAGR(i) \text{ and indicator } AAGR(j) \text{ doesn't correspond} \end{cases} \quad (2)$$

Where  $\mu_{(ij)}$  - an element of the matrix for the benchmark situation;  $i, j$  – companies' indicators,  $AAGR(i), AAGR(j)$  – an average annual growth of the companies' indicators.

We build the same matrix for the actual situation ( $C(A)$ ) of the company.

$$C(A) = \{\eta_{ij}\} \quad (3)$$

In many cases, the actual rate doesn't match the benchmark one. Therefore it is necessary to calculate the degree of deviation the real criteria from the benchmark one. The gap between  $C(B)$  and  $C(A)$  characterizes the degree of variation ( $d$ ) of the actual corporate tension from the required one. It calculates the equation (4):

$$Cd = \sum_{i=1}^n \sum_{j=1}^m |\mu_{ij} - \eta_{ij}| \quad (4)$$

After that, it should be normalized by using the equation (5)

$$R = \frac{d}{2nnz} \quad (5)$$

Where  $nnz$  is the number of nonzero elements in a matrix. It doesn't include items in the main diagonal;  $0 < R < 1$ . If  $R=0$ , then the level of the corporate tension equal 0 %, the higher  $R$ , the higher percentage of the corporative pressure in the company. In other words, the indicator allows giving an evaluation of the effectiveness of corporate conflict management.

Finally, we are using online questionnaires to investigate which method companies prefer to use to resolve their conflicts.

The results obtained from this study, show that the most common conflicts under Ukrainian conditions practice is a conflict related to the dissatisfaction of shareholders with the work results of the corporate managers. The disagreements led to the manager resignation in all eight cases, however, only in three of them, the manager conflicted before that. Expansion of ownership is the second most common reason for conflicts according to the result. It is quite a predictable result, because of the high concentration of the property by majority shareholders.

Finally, the conflicts of managers with new companies owners are the third most common conflicts. At the same time, managers were dismissed in half of the cases (3 out of 6), with the purpose to put shareholders' person to the positions. In other three cases, they had different views or were fired due to the lack of positive results.

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Table 1

**Type of problems experienced by corporations**

N з/п	Type of problems	Number of statements	Sample
1	Managers Underperformance or Poor Performance	8	94
2	Ownership conflicts	6	94
3	Conflict of interest	3	94
4	Managers opportunistic behavior	5	94
5	Conflicts with the government	4	94
6	The expansion of the property	7	94
7	Conflicts with the owner	3	94
8	Owners conflict of interests	1	94
Total		37	-

There were no cases of conflict involving employees of the company or its suppliers because most of these conflicts are not reported.

We investigate the average annual growth rate of the key company indicators and identify the level of corporate tension of the Ukrainian corporations. Tab. 2 shows Sample data of the average annual growth and Benchmark and Annual indicators. The sample size 80 Ukrainian companies. The data covers 2014-2016.

Table 2

**Average annual growth Ukrainian companies– by the key indicators**

Indicator	Benchmark Ranking	Average annual growth	Annual ranking	Ranking deviation
1	1	1,00	1	0
GE	2	1,60	3	-1
TA	3	1,50	2	1
R	4	1,80	5	1
NP	5	1,70	4	-1
D	6	1,90	6	0

Tab. 3 shows the Benchmark Order of the Average annual growth. Tab. 4 shows the Annual Order of the Average annual growth.

Table 3

**Matrix with Benchmark Order of the Average annual growth**

	1	GE	TA	R	NP	D
1	1	-1	-1	-1	-1	-1
GE	1	1	-1	-1	-1	0
TA	1	1	1	-1	-1	0
R	1	1	1	1	-1	0
NP	1	1	1	1	1	0
D	1	0	0	0	0	1

Table 4

**Matrix with Annual Order of the Average annual growth**

	1	GE	TA	R	NP	D
1	1	-1	-1	-1	-1	-1
GE	1	1	0	-1	-1	0
TA	1	0	1	1	-1	0
R	1	1	-1	1	1	0
NP	1	1	1	-1	1	0
D	1	0	0	0	0	1

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We calculate the degree of deviation the real criteria from the benchmark one and  
 $d=10$

$$R = 10 / (2 * 22) = 0,22$$

If  $R=0,22$  then the level of the corporate tension Ukrainian corporation equal 22 %. So, it will be good for them to implement measures to prevent and decrease their corporative conflicts

**Conclusions.** We have attempted to define corporate conflict and its types such as horizontal and vertical, intra and inter-organizational, functional and dysfunctional. It then considered that the most common organizational arguments is dissatisfaction with manager's work by shareholders' opinion. Ukrainian corporations have also problems with Ownership Expansion, because of the high concentration of the property by majority shareholders.

We later developed the link between corporate conflicts and key companies' indicators. We considered when the company profit average annual growth rate higher than the average annual growth rate of revenue, total assets and gainfully employed such a company doesn't have any corporate tension and vice versa.

We conclude that better way to avoid conflict is to prevent them. A company should regulate its legal documents, to develop and implement Corporate Governance Code, to introduce the position who will be responsible for the favorable corporate climate. Corporate Secretary, for instance, can solve such conflicts on the low and middle management level, and the Board of Directors Conflicts Committee will control the work of the corporate secretary, prevent and solve them on the high management level.

Dealing with a dispute, we determined some tools which corporation can use to resolve a conflict. It can include involving the neutral side to the corporate disagreements. It can be an organizational mediator or professional consultant outside the corporation.

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- Хілуха  
Оксана Анатоліївна** кандидат економічних наук, доцент, доцент кафедри економіки, безпеки та інноваційної діяльності підприємства, Східноєвропейський національний університет імені Лесі Українки;  
<https://orcid.org/0000-0002-1228-7171>;  
Researcher ID: G-3983-2017;  
E-mail: [Oksana.hiluha@eenu.edu.ua](mailto:Oksana.hiluha@eenu.edu.ua);
- Khilukha  
Oksana Anatoliivna** Candidate of Economic Sciences, Associate Professor, Associate Professor at the Department of Economics, Security and Innovation of the Enterprise, Lesya Ukrainka Eastern European National University;  
<https://orcid.org/0000-0002-1228-7171>;  
Researcher ID: G-3983-2017;  
E-mail: [Oksana.hiluha@eenu.edu.ua](mailto:Oksana.hiluha@eenu.edu.ua);
- Матвійчук  
Іванна Олегівна** кандидат економічних наук, доцент кафедри обліку і аудиту, Східноєвропейський національний університет імені Лесі Українки;  
<https://orcid.org/0000-0002-0953-4442>  
Researcher ID: G-2275-2018  
E-mail: [igadzevych@gmail.com](mailto:igadzevych@gmail.com)
- Matviichuk  
Ivanna Olegivna** Candidate of Economic Sciences, Associate Professor at the Department of Accounting and Auditing, Lesya Ukrainka Eastern European National University;  
<https://orcid.org/0000-0002-0953-4442>;  
Researcher ID: G-2275-2018;  
E-mail: [igadzevych@gmail.com](mailto:igadzevych@gmail.com);
- Ліпич  
Любов Григорівна** доктор економічних наук, професор, декан факультету економіки та менеджменту, професор кафедри економіки, безпеки та інноваційної діяльності підприємства, Східноєвропейський національний університет імені Лесі Українки;  
<https://orcid.org/0000-0002-9059-7271>;  
E-mail: [Lglipych@gmail.com](mailto:Lglipych@gmail.com);
- Lipych  
Lyubov Grigoriivna** Doctor of Economics, Professor, Dean of the Faculty of Economics and Management, Professor at the Department of Economics, Security and Innovation of the Enterprise, Lesya Ukrainka Eastern European National University;  
<https://orcid.org/0000-0002-9059-7271>;  
E-mail: [Lglipych@gmail.com](mailto:Lglipych@gmail.com)