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CONTROL AND COLLABORATION: PARADOXES OF GOVERNANCE

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Corporate governance is an increasingly provocative topic, evident in ongoing debates between proponents of control versus collaborative approaches. We accommodate these contrasting approaches within a paradox framework, using agency and stewardship theories to elaborate the underlying tensions and to emphasize the value of monitoring, as well as empowerment. Building from these tensions, we examine reinforcing cycles that foster strategic persistence and organizational decline. We conclude by discussing means of managing control *and* collaboration, highlighting the implications for corporate governance.

> Legally, the board is the highest authority in the company, the 'fountain of power,' yet top management naturally tends to exercise that power. . . . Board members are expected to provide critical judgment on management performance—which requires an in-depth knowledge of, and intimacy with the affairs of the corporation—and at the same time to assure that this judgment is independent—which requires detachment and distance. . . . The working style of the board must build its collective strength: the board needs the trusting familiarity of a close-knit group, yet members must be independent personalities who can resist 'groupthink' and raise critical questions of colleagues (Demb & Neubauer, 1992: 13–16).

Tensions between proponents of control versus collaborative approaches to governance are rising. Debates persist over whether detached outsiders or knowledgeable insiders should dominate boards, whether directors should monitor or empower executives, and whether the board should allow market forces to discipline managerial excess or should protect managers from market abuses (Dalton, Daily, Ellstrand, & Johnson, 1998; Sundaramurthy, 2000; Westphal, 1999). Yet, increasingly, researchers call for understandings that move beyond either/or thinking (e.g., Audia, Locke, & Smith, 2000; Drummond, 1998; Kisfalvi, 2000). According to Demb and Neubauer (1992), rising environmental ambiguity and turbulence demand a more paradoxical approach to governance—an approach that embraces the *simultaneous need for control and collaboration*.

Recently, Lewis (2000) detailed a framework for exploring organizational paradoxes, such as the coexistence of authority and democracy, efficiency and creativity, and discipline and empowerment. In this framework Lewis examined the tensions, reinforcing cycles, and management of paradox. Paradoxical tensions stem from perceptions of opposing *and* interwoven elements. Most individuals apply formal logic based on internal consistency, polarizing the elements to stress distinctions rather than interdependencies. Stressing one polarity exacerbates the need for the other, often sparking defenses, impeding learning, and engendering counterproductive reinforcing cycles. Managing paradox, in contrast, entails developing understandings and practices that accept and accommodate tensions.

Lewis's (2000) framework guides our exploration of governance paradoxes. We begin with an analysis of underlying tensions, using agency and stewardship theories to help elaborate differences and similarities between control and collaborative approaches. Next, we integrate insights from organizational behavior, strategy, and governance research to discuss cognitive, behavioral, and organizational dynamics that inhibit change when one approach is overem-

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phasized. We detail four reinforcing cycles that foster strategic persistence (Audia et al., 2000) and organizational decline (Hambrick & D'Aveni, 1988). We then examine means of managing control *and* collaboration, discussing implications of a paradox approach for governance research and practice.

TENSIONS: CONTRASTING APPROACHES TO GOVERNANCE

Competing perspectives help sharpen researchers' focus on opposing facets of paradox (Lewis & Keleman, 2002; Poole & Van de Ven, 1989). We apply agency and stewardship theories to detail contrasting, yet potentially complementary, approaches to governance. Rooted in economics and finance, agency theory informs a control approach aimed at curbing self-serving behaviors of managers (agents) that may negatively impact owners' (principals) wealth (Eisenhardt, 1989). Stewardship theory details a collaborative approach, tapping insights from sociology and psychology. Proponents of this approach strive to enhance board-management ties and decision making by empowering managers (stewards) of the firm (Davis, Schoorman, & Donaldson, 1997). To elaborate control-collaboration tensions, we juxtapose assumptions and prescriptions of each approach (see Figure 1).

Control and collaborative approaches promote alternative "models of man" (Davis et al., 1997). Their fundamental assumptions expose varied and interwoven aspects of human tendencies, motivation, and management-owner relations. Control advocates accentuate the challenges of individualism and the value of extrinsic motivation. A "risk differential" fosters goal conflict (Jensen & Meckling, 1976). As Wiseman and Gomez-Mejia (1998) have explained, principals are risk neutral because they can own shares in multiple, diverse companies. Agents, however, are more risk averse, owing to their need for stable employment. This differential poses a moral hazard—the potential for agents to engage in opportunistic behavior—and inspires distrust. A collaborative approach, in contrast, stresses managers' tendencies to be collectively oriented and intrinsically motivated. As stewards, managers may identify with the firm and internalize its mission. Hence, they

FIGURE 1
Contrasting Approaches to Corporate Governance

Control	⟵⟶	Collaboration
Agency theory (economics and finance)	**Theoretical basis**	Stewardship theory (sociology and psychology)
	Assumptions	
Individualist Opportunism	**Human tendencies**	Collectivist Cooperation
Extrinsic	**Motivation**	Intrinsic
Geal conflict (risk differential) Distrust	**Management-owner relations**	Goal alignment (firm identification) Trust
	Prescriptions	
Discipline and monitor	**Board's primary role**	Service and advise
Outsiders Nonduality	**Board structure**	Insiders, social ties CEO duality
Reduces goal conflict, avoids increasing risk differential	**Executive stock ownership**	Fosters firm identification and long-term relations
Constrains self serving behavior	**Market for corporate control**	Curbs psychological commitment

may be trusted to "behave in ways that are consistent with organizational objectives" (Davis et al., 1997: 25).

Grounded in these assumptions, each approach prescribes certain board roles and structures. A control approach stresses discipline. According to Fama, the board is the "ultimate internal monitor . . . whose most important role is to scrutinize the highest decision makers within the firm" (1980: 294). Outside directors, those detached from management and daily operations, facilitate objectivity (Kosnik, 1987), while separate CEO and chair positions provide further checks and balances (Rechner & Dalton, 1991).

A collaborative approach, in contrast, stresses service, calling for boards to advise and enhance strategy formulation. Board-management social ties foster trust, helping executives to engage less in impression management and to seek greater input from directors (Westphal, 1999). Likewise, directors may offer more candid feedback, confident that executives will consider their views. Structurally, insiders are valued for their operational expertise (Baysinger, Kosnik, & Turk, 1991), while CEO-chairs provide a unity of command that may clarify decision-making authority, reduce role conflict, and reassure shareholders (Finkelstein & D'Aveni, 1994).

These approaches also offer varied insights into the means of encouraging effective management. For instance, a control approach values stock ownership as an internal bonding mechanism, reducing goal conflict by tying executives' rewards to firm performance (Jensen & Murphy, 1990). Yet advocates warn that excessive stock ownership widens the risk differential, intensifying managers' aversion to risk taking (Stulz, 1988). The market for corporate control, however, may constrain self-serving behaviors by providing an arena in which different teams compete to manage a firm's resources (Jensen & Ruback, 1983).

In contrast, a collaborative approach consistently promotes equity ownership to foster firm identification (Hambrick & Jackson, 2000) and to signal an enduring board-management relationship (Dalton & Daily, 1999). The market for corporate control may undermine these benefits by curbing managers' psychological commitment to the firm. Hence, antitakeover provisions may help support long-term relationships that satisfy managers' intrinsic needs for affiliation (Davis et al., 1997).

In sum, these contrasting approaches elaborate control-collaboration tensions. Seemingly divergent assumptions accentuate intricate dualities of human nature—for example, individualist/collectivist tendencies, extrinsic/intrinsic motivations, and distrusting/trusting relations. From this foundation, researchers prescribe governance mechanisms that foster control or collaboration across multiple dimensions. Indeed, ongoing debates between agency and stewardship theorists (e.g., Amihud & Lev, 1999; Lane, Cannella, & Lubatkin, 1999) encourage researchers to explore this complexity. Agency theorists increasingly have noted the costs and limits of vigilant control. For instance, in several studies researchers have investigated how varied control mechanisms may substitute or complement one another (e.g., Morck, Shleifer, & Vishny, 1989; Rediker & Seth, 1995; Sundaramurthy, 1996; Sundaramurthy, Mahoney, & Mahoney, 1997). Likewise, stewardship theorists have examined how contextual factors may constrain or enable a collaborative approach. For example, Davis et al. (1997) noted psychological, situational, and cultural factors that predispose individuals to stewardship.

REINFORCING CYCLES: DYSFUNCTIONAL DYNAMICS OF CONTROL-COLLABORATION TENSIONS

Paradoxical tensions spark defenses that may inhibit change and fuel counterproductive reinforcing cycles (Lewis, 2000). Defenses denote cognitive, behavioral, and organizational responses that protect the ego, preventing actors or groups from confronting the limits of current understandings and practices. Extant studies depict such cycles as self-fulfilling prophecies (e.g., Frey, 1997; Lindsley, Brass, & Thomas, 1995), downward spirals (e.g., Hambrick & D'Aveni, 1988), or strategic persistence (e.g., Audia et al., 2000; Boeker, 1997; Kisfalvi, 2000).

We apply a paradox framework to extend this literature, exploring how a collaboration or control emphasis may raise defenses that fuel such dysfunctional dynamics. Indeed, boards often emphasize either control or collaboration, because existing mindsets and political forces favor (and perpetuate) one approach (Daily & Schwenk, 1996; Westphal & Zajac, 1995). We examine high- and low-performance contexts, detailing four reinforcing cycles potentially triggered by such emphasis.

In highly collaborative settings, firm identification increases directors' and managers' desires to defend their collective decision making. Mounting groupthink results in strategic persistence during good times and organizational decline as performance deteriorates. The effects of a control emphasis are similar, but defenses vary. A dominant control approach promotes clear separation of responsibilities, spurring directors to defend the vigilance of their monitoring efforts and prompting managers to justify their chosen strategy and its execution. Rising distrust exacerbates these defenses, hampering board-management interactions and learning.

Reinforcing Cycles of Collaboration

Stressing a collaborative approach, directors and executives seek to become a cohesive "governing team." Yet as teams focus on cooperative decision making and goal alignment, they accentuate the simultaneous need to systematically monitor and critique their efforts. Reinforcing cycles potentially swirl around groupthink—a pattern of collective defenses aimed at denying or suppressing tensions (e.g., need for control as well as collaboration; Janis, 1982). As illustrated in Figure 2, the nature of defenses and their consequences varies according to firm performance.

High-performance cycle. Researchers propose that a collaboration emphasis and past success provide seeds for rising groupthink (e.g., Janis, 1982) and strategic persistence (e.g., Kisfalvi, 2000). Audia et al. (2000) explain that decision makers in this context often exhibit considerable confidence in their team (i.e., collective efficacy), in their current strategies, and in their beliefs regarding cause-effect relations. In addition, both directors and executives with excessive stock ownership may strongly identify with the firm, internalizing comments regarding firm performance and strategies (Davis et al., 1997). Over time, the combination of high collective efficacy and firm identification raises the potential for counterproductive defenses. Faulty attributions, consensus seeking, and complacency and entrenchment may intensify collaboration and strategic persistence.

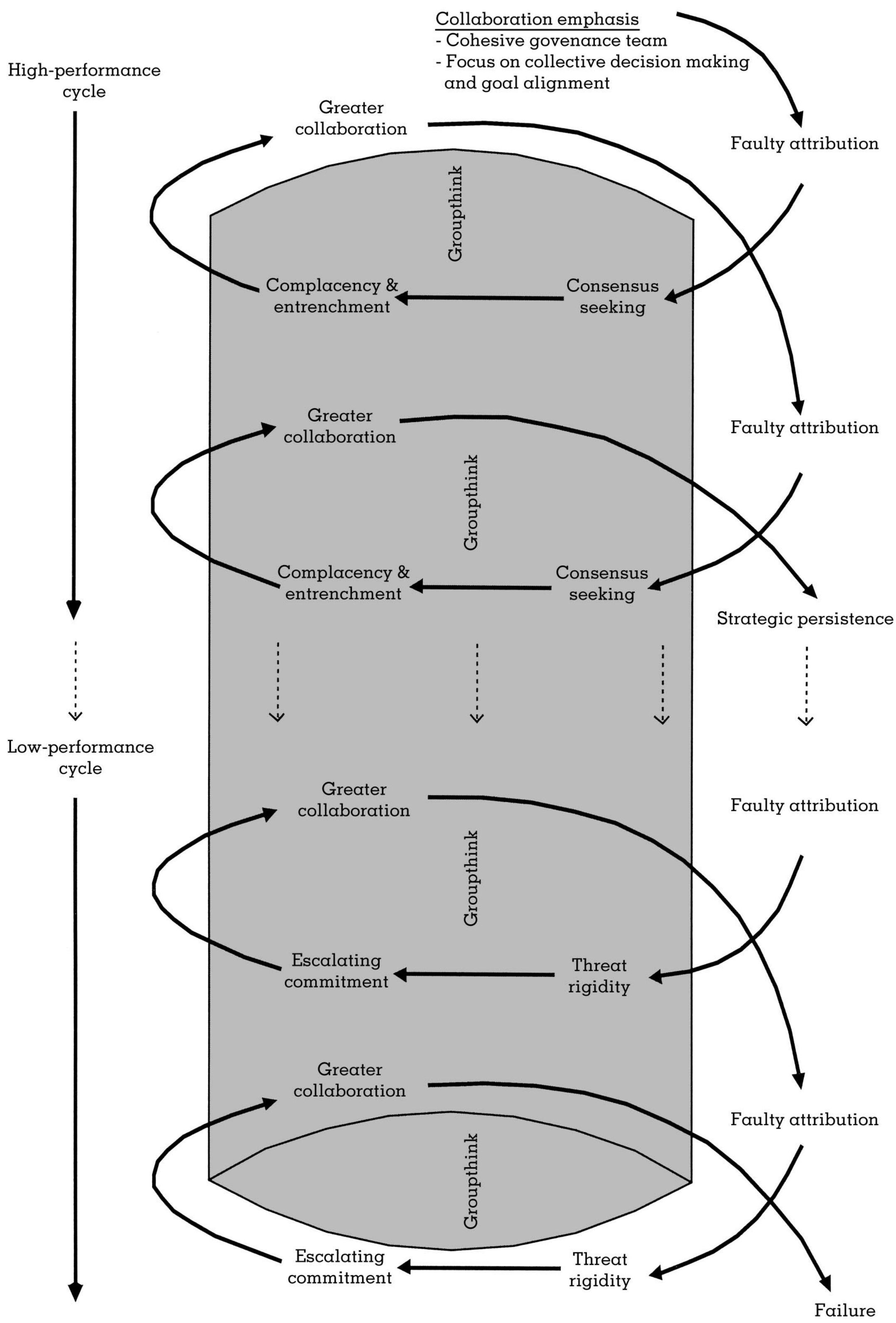
An extended period of prosperity often reduces a firm's motivation to comprehend the causes of success, raising the likelihood of faulty attributions (Lindsley, Brass, & Thomas, 1995). Cohesive governance teams may attribute their success to internal factors, such as the strategies, structures, and processes they developed (Milliken & Lant, 1991; Miller, 1994). Taking credit for success inspires overconfidence, further reducing incentives to question the causes of performance.

A second form of faulty attribution entails directors' and managers' collectively rationalizing and discounting environmental change. Overconfidence—and the desire to protect their egos—desensitize decision makers to negative feedback. Applying tenets from crisis denial literature, D'Aveni and MacMillan (1990) note that consistent high performance encourages actors to view changes as inconsequential and temporary. Ranft and O'Neill (2001) pose the case of collaborative firms led by "high-flying founders." They found that repeated success builds huge egos. Founders assume "superstar" status, gaining informal power and closely identifying with strategic decisions. Without vigilant monitoring by blockholders (Bethel & Liebeskind, 1993) and detached outside directors (Johnson, Hoskisson, & Hitt, 1993), denial and overconfidence can prevent needed restructuring, depleting a firm's potential slack (Hambrick & D'Aveni, 1988).

Consensus seeking further validates team effectiveness, demonstrating the team's decision-making prowess. Information gathering and processing efforts, however, may suffer. As executives and directors build strong social ties and mutual trust, pressures toward cohesion grow. Members, acting as "mindguards," exert pressure on those whose opinions contradict the majority, protecting the team from information contrary to its beliefs (Janis, 1982: 175). Even if past successes were due to accidents of timing, confidence rises as searches for critical feedback decrease (Lindsley et al., 1995).

Over time, the governance team's increasingly rigid mental maps, constricted information flow, and high collective efficacy induce complacency and entrenchment (Lindsley et al., 1995). An unquestioned and positive framing of the firm's strategy and environment may foster risk aversion, as well as underinvestment in new initiatives (Ranft & O'Neill, 2001). Antitake-

FIGURE 2
Reinforcing Cycles of Collaboration



over measures (Mahoney, Sundaramurthy, & Mahoney, 1997) or lack of external monitoring (Hansen & Hill, 1991) can exacerbate myopia. A team may prefer the certainty of its initial strategy, even if it is no longer appropriate. Gradually, faulty attributions and consensus seeking institutionalize the dominant coalition, while disenfranchising others (Miller, 1994). Absent critical assessment, "success creates corporate cultures that make company . . . leaders into power centers, into heroes with the status and resources to perpetuate both their stewardship and their policies" (Miller & Chen, 1994: 4).

Groupthink, along with the related defenses it spurs, allows the board and management to bask in past successes and increase their collaboration, rather than recognize the need for change and greater control. This reinforcing cycle fosters strategic persistence or "the paradox of success" (Audia et al., 2000). If the fit between a firm's current strategy and environmental conditions remains, negative consequences may be delayed. Yet the effectiveness of all successful strategies will decline eventually because of competitive imitation. A drastic environmental shift, however, can have an immediate impact, heralding the firm into the low-performance cycle.

Proposition 1a: Firms with a history of high performance and a predominant emphasis on collaboration will experience reinforcing cycles that foster strategic persistence.

Low-performance cycle. As performance declines, so does a team's collective efficacy, altering members' potential defenses (Lindsley et al., 1995). While defenses evoked by success bolster director-executive relations and decision making, defenses in a low-performance context serve a "face-saving" purpose (Staw, 1976). Groupthink exacerbates faulty attributions, threat rigidity, and escalating commitment to a failing course of action, eventually resulting in failure (see Figure 2).

Faulty attribution serves as a defense in high- and low-performance contexts. Yet emphasis shifts from internal attributions of success and discounting of environmental changes, in the former, to external attribution of decline and blaming in the latter. Studies show that executives often ascribe failure to factors beyond their control (e.g., Salancik & Meindl, 1984; Staw, McKechnie, & Puffer, 1983), helping manage their personal anxieties and image. According to Milliken and Lant, managers may engage in "wishful thinking," "perceive the external factors that led to failure as bad luck," and "underestimate the permanence and significance" of environmental changes (1991: 143). To bolster their confidence, managers also may interpret problems as an indication that their strategies are inappropriately implemented, rather than inappropriate themselves (Sherman & Chaganti, 1998).

Blaming offers an alternative—and likely interwoven—defense. According to Boeker (1992), CEOs with considerable informal (i.e., referent) and formal (i.e., duality, stock ownership) power often attribute poor performance to external factors and influence the board to do likewise. For instance, they may project blame toward (and remove) lower-level subordinates, depicting the scapegoats as poor implementers of effective plans. Simultaneously, tight allegiances and CEO duality can inhibit directors from proactively seeking and effectively critiquing feedback about CEO performance, negating succession as an adaptive mechanism (Boeker & Goodstein, 1993). Consequently, in times of poor performance, cohesive teams often exacerbate managerial entrenchment and attachment to the current strategy (Cannella & Lubatkin, 1993).

Studies suggest that groupthink fuels threat-rigidity responses during decline (e.g., D'Aveni & MacMillan, 1990). According to Staw, Sandelands, and Dutton (1981), low performance intensifies stress, causing managers to restrict their information gathering and to rely instead on familiar knowledge to reduce communication complexity and anxiety. Rising stress also may cause managers to formalize procedures and further consolidate their power. Daily and Dalton (1994) found that bankrupt firms rely more on centralized governance (fewer outside directors and CEO duality) than do survivors. In their words, threat-rigidity responses coupled with executive entrenchment "escorts the declining firms into a position from which there is little chance of return" (1994: 649).

Studies depict how groupthink and declining performance foster escalating commitment to a failing course of action (Kisfalvi, 2000). Staw (1976) explains that "knee deep in the big muddy" decision makers may raise their commitment—dedicating more resources and even their identities—to the current strategy, rather than address its limitations. According to Brockner (1992), escalation defends close board-management relationships. While executives intensify their commitment to save face, directors do so to signal their dedication to management. Drummond (1998) recounts the case of a massive IT venture by the Bank of England. As the project began to go awry, executives repeatedly sought to "save face" by increasing project resources. Rather than intervene and potentially harm their social ties, members of the board intensified their support, contributing to a vicious cycle.

Changes in risk propensity also contribute to escalation. According to Whyte (1989), a cohesive group will not only seek consensus around the current course of action but also will make decisions that promote a *more extreme* version of the existing strategy. This reaction suggests a "risky shift." Sticking with an inappropriate strategy appears safe (low risk) but is actually a high-risk decision. McLain and Hackman (1999) explain that a cohesive, trusting group is more likely to make this shift as supportive interactions reduce the perceptions of risk and uncertainty. Likewise, prospect theorists posit that managers tend to be more risk seeking when facing losses (Kahneman & Tversky, 1979). Rather than accept losses as "sunk costs," actors tend to choose a course of action that risks a much greater loss, offering a slim chance of breaking even or making a profit.

In sum, poor performance may spark change and learning if governance teams recognize their actions as a possible cause of decline, encouraging them to question their existing strategies, roles, and structures. Yet teams often exert energy defending their current course of action, thereby suppressing the need for greater monitoring, discipline, and control. Daily and Dalton (1994) found that highly collaborative firms (e.g., CEO duality, insider-dominated boards) more rigidly adhered to this governance approach during decline, inhibiting turnaround and eventually leading to failure.

> *Proposition 1b: In a low-performance context, firms with a predominant emphasis on collaboration will experience reinforcing cycles that foster organizational decline.*

Reinforcing Cycles of Control

Proponents of a control approach seek vigilant, outsider-dominated boards and active monitoring. As with its collaborative counterpart, however, an overemphasis on control may prove counterproductive. Researchers note that excessive use of rational controls simultaneously signals and reinforces a growing distrust (Ghoshal & Moran, 1996). As Frey explains, "The agent may perceive more intensive monitoring by the principal as an indication of distrust, or as a unilateral break of the contract built on mutual trust" (1997: 664).

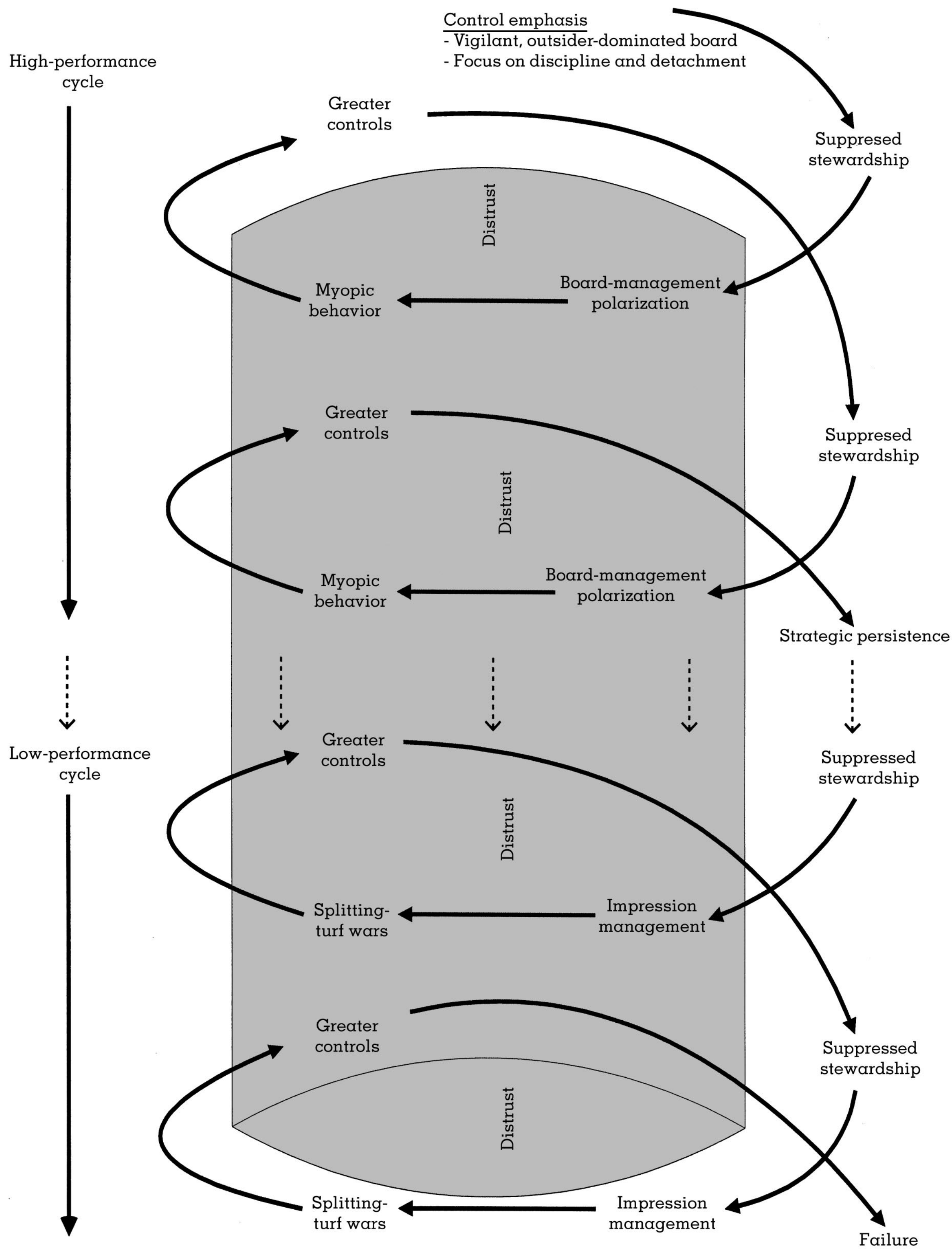
Yet directors also must collaborate with managers and trust their ability to handle daily operations and implement board initiatives. This tension sparks defenses that suppress stewardship, inhibit information flow, and engender the very behaviors the approach seeks to curb. Defenses trigger reinforcing cycles often described as self-fulfilling prophecies (e.g., Davis et al., 1997; Frey, 1997; Ghoshal & Moran, 1996). We detail the dynamics of these cycles in high- and low-performance contexts (Figure 3).

High-performance cycle. The pairing of high performance and a control emphasis may foster rising distrust, sparking defenses in a reinforcing cycle. Suppressed stewardship, board-management polarization, and myopic behaviors prompt greater control and strategic persistence.

According to stewardship theory, controls may squelch managers' stewardship motives and aspirations—the very leadership traits needed to propel organizations to new heights. Managers who reach the apex of organizations typically are driven by higher-order needs. According to Davis et al., intrinsic rewards associated with growth, achievement, and affiliation motivate these individuals to "more readily engage in cooperative, altruistic, and spontaneous unrewarded citizenship behaviors" (1997: 30). Rational controls stymie these proclivities by limiting social ties and emphasizing extrinsic rewards. Suppressing their aspirations pushes the steward to either (1) reduce his or her organizational commitment and engage in more self-serving behaviors to fulfill lower-order needs or (2) if unable to suppress their aspirations, become increasingly withdrawn and resistant.

Similarly, Frey (1993, 1997) reviewed extensive research support for the "crowding-out effect."

FIGURE 3
Reinforcing Cycles of Control



This effect suggests that monitoring and bonding mechanisms undermine motivation under two conditions. First, when agents—as is the case with most executives—have high work morale, firm identification, internalized performance standards, and decision-making discretion, extrinsic incentives do not fulfill their needs. Second, controls that are viewed as coercive and constraining shift the locus of control from agent to principal, reducing the agent's desire to comply. Such perceptions are more likely when trust is low, reducing the agent's overall work motivation and increasing the principal's desire for control. This effect is reinforcing. Agents increasingly perceive controls as indications of distrust, further motivating them to reduce their effort (Frey, 1993).

Rising tensions may foster polarization, as actors' defenses encourage a growing division of board-management interests and activities. Rather than respond to needs for greater collaboration and social controls (e.g., trust, insiders), directors may seek more *effective* use of rational controls, further detaching themselves from internal operations to enable more critical monitoring. Meanwhile, managers may experience ambivalence, feeling pride in their firm's performance as well as frustrations over rising controls and distrust. According to Pratt and Doucet (2000), polarization offers temporary solace from ambivalence. Managers may attempt to isolate themselves from the source of their frustrations, increasing their emotional distance from the board and external monitors while targeting their positive feelings on other members of the top management team.

Polarization, however, constricts information flow, impeding communications between board and management and intensifying their mutual distrust. As Dougherty (1996: 427) notes, in the context of product development, polarized groups become immersed in their own activities, fragmenting understandings of outsiders' demands and insiders' operations into different "thought worlds" that are difficult to integrate. This challenge intensifies as directors and executives become overconfident in successful times and less likely to seek and consider others' advice. Likewise, information asymmetry may increase as managers seek credit for the firm's success and downplay the board's role, hoarding critical information to solidify their growing power base.

Over time, polarization engenders myopic behaviors that inhibit learning and risk taking. According to Piderit (2000), management and board may become progressively isolated and less likely to experiment, express divergent opinions, and discuss decision options. Facing control-collaboration tensions, directors may cling to their beliefs in human limitations, stressing rational, outcome-based controls to reduce the risk of managerial opportunism (Ghoshal & Moran, 1996).

Moreover, boards dominated by outsiders, who are less involved with internal operations, are more likely to use financial, outcome-based controls than subjective, strategic controls. Yet tight financial controls often result in shortened time horizons and risk-avoidance behavior on the part of managers (Hayes & Abernathy, 1980; Hoskisson, Hitt, & Hill, 1991). Active external monitoring (Graves, 1988) can further stifle long-term investments and result in extensive corporate diversification (Fox & Hamilton, 1994). However, when insiders are well represented on the board, top executives are more willing to invest in long-term R&D projects (Baysinger et al., 1991).

Frey (1997) further suggests that the declining intrinsic motivation spurred by monitoring and bonding mechanisms may reduce agents' learning capacity. Myopic decision making stems from repressed desires for creativity and curiosity. Learning becomes tied to specific situations for which extrinsic rewards apply, fueling low-risk, single-loop learning while discouraging more frame-breaking innovations and change. Macaulay's (1963) classic study depicts how rational controls diminish decision-making flexibility. Extensive formalization indicates a lack of trust and blunts the value of social ties, "turning a cooperative venture into an antagonistic horse trade" (Macaulay, 1963: 43).

In this cycle polarization and myopic behaviors—and their accompanying information asymmetry and risk aversion—confirm directors' distrust of executives, prompting greater use of rational controls. Intensification of controls may create a depersonalized workplace and disenfranchised employees, as principals assume the primary responsibility of deciding and orchestrating firm procedures. Trust and managerial discretion decline, reducing executives' opportunities and motivation for stewardship. Davis et al. (1997) propose that this cycle fosters varied antagonistic behaviors, including greater executive turnover and compensation demands.

Directors might respond to this cycle by moderating their control, delegating decision making, and limiting rational controls to areas most vulnerable to opportunistic behaviors. Yet Ghoshal and Moran (1996) stress that past control-oriented attitudes and behaviors may build upon themselves, inhibiting directors from making such adaptations. Likewise, greater board-management trust might enable use of alternative, social controls. Trust, however, has a powerful, "self-fulfilling quality: The existence of trust gives one reason to trust (for both social and transaction cost reasons), just as distrust begets distrust" (Bradach & Eccles, 1989: 106). Mounting learning disabilities foster strategic persistence. As directors and executives become more polarized and myopic, the firm will have greater difficulty responding to environmental changes in a timely and effective manner.

> *Proposition 2a: Firms with a history of high performance and a predominant emphasis on control will experience reinforcing cycles that foster strategic persistence.*

Low-performance cycle. Declining firm performance intensifies self-fulfilling prophecies. According to Lindsley et al. (1995), rising tensions and defensiveness spark a deviation-amplifying loop. For instance, greater internal and external control may indicate directors' distrust in managerial abilities. Over time, these signals negatively impact executives' self-perceptions and performance. Executives also may view low performance and rational controls as cues to protect themselves, encouraging greater impression management and political turf wars. Such defenses reaffirm directors' need for control, stifling managers' ability to innovate and avert failure.

The coupling of high controls with low performance may further suppress managerial stewardship. Close monitoring and negative feedback may erode executives' self-efficacy, lowering their aspirations and beliefs in their own ability (Lindsley et al., 1995). As Ghoshal and Moran explain, "The use of rational control signals that (managers) are neither trusted nor trustworthy . . . surveillance that is perceived as controlling threatens the controllee's personal autonomy and decreases his or her intrinsic motivation" in a downward spiral (1996: 24). Executives also may attempt to reduce their identification with the firm to avoid the internalization of poor performance.

Desires to bolster their self-efficacy and avoid blame for low performance encourage greater impression management by executives. Goold and Quinn, building on Argyris's work, note that mutual distrust "invites defensive behaviour and prevent[s] openness" (1990: 53). Managers will not freely discuss the firm's problems, because "they may have to admit their own limitations in solving them—implicitly or explicitly" (Westphal, 1999: 9). In defense, managers will become less likely to seek input from outside board members and institutional investors for fear of being viewed as incompetent (Jones & George, 1998). Impression management may distort communications and intensify information asymmetries, inhibiting effective decision making and fueling suspicions.

As performance declines, both groups (managers and monitors) may apply splitting as a defense, constructing we/they distinctions that project negative emotions (e.g., frustrations, anger) on each other, meanwhile retaining positive emotions within their own group (Pratt & Doucet, 2000). Coupled with reduced firm identification, executives may blame problems on the board. A control emphasis facilitates this defense by providing a clear insider-outside distinction (i.e., greater board detachment, outsider representation). In contrast, close social ties and CEO duality may inhibit such defenses (Donaldson, 1990). As Cannella and Lubatkin note, "During poor performance a dual-title holder may be less able to avoid the blame" (1993: 770). Unambiguous authority entails unambiguous accountability for failure. Yet without collaborative mechanisms, splitting may fuel political turf wars. For instance, given that poor performance raises the likelihood of dismissal, executives have a strong incentive to aggressively protect their power and discretion (Cannella & Shen, 2001).

Research suggests that when a control-oriented board faces a particularly uncertain and/or unstable environment, it may manage the risk via greater controls (Davis et al., 1997). Ghoshal and Moran describe the paralyzing impact of the self-fulfilling prophecy:

> As the increased use of rational controls (a) increases the [board's] dependency on those controls, (b) shifts voluntary compliance and extra role behavior to compulsory compliance and work-to-rule, and (c) encourages more difficult to detect opportunistic behavior, the cost of removing these controls will grow until it is no longer an option (1996: 27).

The consequence is a "pathological spiraling relationship." Enzle and Anderson describe the effect: "Surveillants come to distrust their targets as a result of their own surveillance and targets in fact become unmotivated and untrustworthy. . . . Trust and trustworthiness both deteriorate" (quoted in Ghoshal & Moran, 1996: 25).

Research also indicates that rising controls and defensiveness may propel a firm toward failure. In the final stages of decline, instead of concentrating on solving the firm's problems, managers divert resources to defending their prior actions. Consequently, the firm will continue on a path of poor performance, confirming the board's distrust of management. In a downward spiral directors are likely to implement additional controls and audits, reinforcing managerial defenses. Meanwhile, institutional investors often intensify their monitoring, stifling management's "ability to seek a prepackaged plan" and reducing managerial efforts directed at reorganization (Daily, 1996: 371). This cycle constrains vital adaptations, fueling organizational decline toward failure.

> *Proposition 2b: In a low-performance context, firms with a predominant emphasis on control will experience reinforcing cycles that foster organizational decline.*

MANAGING CONTROL *AND* COLLABORATION

The previous discussions highlight vital needs for control *and* collaboration in governance. A control approach helps curb human limitations through vigilance and discipline, while a collaborative approach taps individuals' aspirations via cooperation and empowerment. Yet if one approach becomes overemphasized, perils of groupthink or distrust can fuel reinforcing cycles. From a paradox perspective, however, embracing and balancing both approaches facilitates learning and adaptation (Lewis, 2000; Poole & Van de Van, 1989).

In this section we explore varied approaches to managing control and collaboration. We first examine means of fostering self-correcting, rather than reinforcing, cycles. While reinforcing cycles may herald strategic persistence and organizational decline, self-correcting cycles potentially enable strategic flexibility and organizational renewal. Self-correction requires paradoxical thinking to reframe conflicting assumptions and practices as both/ands rather than either/ors (Smith & Berg, 1987). In this spirit we examine divergent yet complementary governance prescriptions, encouraging firms to embrace conflict *and* trust and to promote diversity *and* shared understandings in board-management relations.

Second, we recognize the possible need for external interventions. According to Lindsley et al. (1995), avoiding reinforcing cycles may be easier than breaking free of their grip. Once in motion, external interventions provide purposeful "shocks" or "jolts" that may trigger learning (Ginsberg, 1988). For instance, demands of powerful blockholders or activist investors may compel structural or strategic change.

Self-Correcting Cycles: Embracing Trust *and* Conflict

Trust and conflict offer potentially vital means of enabling self-correction while simultaneously harboring the seeds of reinforcing cycles. Trust, on the one hand, facilitates collaboration and complements rational controls, serving as an "important lubricant of a social system" (Arrow, quoted in Bradach & Eccles, 1989: 104). Too much trust, however, may encourage extreme cohesion. Conflict, on the other hand, stimulates critical feedback to counter groupthink. Yet conflict also may trigger political battles that undermine social ties and fuel distrust.

Promoting trust *and* conflict requires paradoxical understandings of these intricate concepts, as well as their interplay. For example, trusting relationships can foster cognitive conflict and collaboration. Yet, as Lewicki, McAllister, and Beis (1998) explain, the functional coexistence of trust *and* distrust lies at the crux of high-performing teams. Team members learn "not only when to trust others, and in what respects, but when to monitor others closely" (Lewicki et al., 1998: 453).

Trust enables the cohesiveness and comfort needed for open and thoughtful interactions (Westphal, 1999). For example, Sir Deny Henderson, former chair and CEO of Imperial Chemical Industries, advocates the importance of trust:

> In my view, it is vital for the chairman and the CEO to have a close working relationship, which is why the chemistry between them is so important. The chairman and other outside directors should always be wary of doing anything that might undermine that relationship or damage the board's team approach to carrying out its responsibilities (*Harvard Business Review*, 1995: 162).

Forbes and Milliken elaborate, explaining that board effectiveness depends on members' ability to "trust each other's judgment and expertise, and such trust will be difficult to sustain on boards with very low levels of interpersonal attraction" (1999: 496).

Furthermore, trusting board-management relations complement rational controls. According to Frey (1993, 1997), trust alters managerial perceptions of monitoring and bonding mechanisms. Board involvement is more likely to be perceived as a means of providing constructive feedback, whereas incentives serve as recognition of managerial competence. Such "crowding in effects" of rational controls may raise executives' intrinsic motivation and firm identification.

Distrust, as Lewicki et al. (1998) explain, also may prove functional. Distrust of natural human limitations encourages the questioning of existing assumptions and past decisions, highlighting needs for control. Procedures such as audits and formal reviews limit the risk of managerial opportunism and bounded rationality. Open-mindedness of the CEO is also critical to self-correction. Over time, however, perceptions become increasingly selective. As Kisfalvi (2000) has emphasized, CEOs may be open to most feedback and ideas and yet obstinate when it comes to their core priorities. Hence, vigilant board monitoring and an effective power balance become crucial to ensuring flexibility (Finkelstein & Hambrick, 1989).

Conflict also can play a vital role in addressing human limitations. Amason (1996) explored the paradoxical role of conflict in strategic decision making by distinguishing affective (emotional) from cognitive (task-related) conflict. He found that affective conflict often paralyzes governing bodies. As criticisms become personal, political gamesmanship and distrust intensify, reinforcing each other in a vicious spiral. In contrast, cognitive conflict facilitates cooperation by aiming criticisms at tasks, not individuals. Rigorously questioning existing structures and processes may enhance decision quality. In addition, such constructive conflict aids learning by helping executives and directors understand causes of changes in firm performance (Lindsley et al., 1995).

Perceptive and influential CEOs facilitate cognitive conflict by encouraging candid, task-related debates (Amason, 1996). One British executive explained:

> Managers have a responsibility to put forward strongly held views to the board. . . . A lot of that atmosphere comes from the CEO. He invites openness at the meeting. If he knows someone has a strong opinion, he'll invite them to express it (interview by Demb & Neubauer, 1992: 105).

Similarly, Gertrude G. Michelson, a GE director, noted, "Jack (Welsh) creates a freewheeling environment where directors are encouraged to speak up" and question decisions, and where senior managers' presentations are not "choreographed exercises with little time for questions and challenges" (*BusinessWeek*, 2000: 148).

In sum, paradoxical approaches to trust and conflict aid the management of control and collaboration. Trust in actors' capabilities bolsters collaborative board-management interactions, whereas distrust of human limitations and cognitive conflict enable controls and constructive debates.

> *Proposition 3a: Encouraging trust (in others' capabilities), distrust (of human limitations), and cognitive (task-related) conflict among governance actors helps manage control and collaboration.*

Self-Correcting Cycles: Promoting Diversity *and* Shared Understandings

Governance structures and processes that simultaneously promote diversity and shared understandings are vital for learning and self-correction. On the one hand, building diverse skills and viewpoints within the board can enhance members' decision-making and monitoring capabilities. On the other hand, developing shared understandings among executives and directors can encourage mutual trust and cooperative problem solving.

Board diversity "translates into a greater variety of perspectives being brought to bear on decisions and, thereby, increases the likelihood of creative and innovative solutions to problems" (Milliken & Martins, 1996: 412). Heterogeneous composition (i.e., insider-outsider mix) and backgrounds (e.g., educational, functional, occupational) offer vibrant sources of diverse ideas.

A dynamic mix of insiders and outsides may contribute valuable, contrasting perspectives. Insiders, including executive directors and/or a CEO-chair, provide a rich knowledge of and strong commitment to the firm. As resource dependence theory suggests, on the one hand, affiliated directors (e.g., with a supplier or banker relationship with the firm) offer expanded understandings of internal operations, as well as access to critical resources (Dalton & Daily, 1999). For example, in a bankruptcy context, these directors may help firms negotiate an effective and timely reorganization (Daily, 1996: 372). On the other hand, external, nonaffiliated members may present insights into technological, market, and legislative changes across industries. Outsiders, as one top manager explained, "take a helicopter view and use their wider vision to challenge the executives to ensure proper consideration and debate" (interview by Demb & Neubauer, 1992: 105). An external chair fosters similar benefits. Nonduality enables the board to provide a "sounding board" for the CEO and to ensure that outsiders' voices are heard. In conjunction, the presence of influential internal and external perspectives supports an atmosphere of productive conflict (Pearce & Zahra, 1991).

Recruiting board members from diverse backgrounds can enhance cognitive conflict and spur more creative debates. Varied skills and experiences help increase the volume and range of information examined as "members notice different stimuli and will bring to the attention of the group distinct aspects of a complex reality" (Rindova, 1999: 963). In addition, those with backgrounds beyond the firm's industry may inform discussions with different mental models.

Diversity, however, poses a challenge for collaboration. Given their differences, individuals may feel uncomfortable interacting, relying instead on formal communication and bureaucratic procedures that slow strategic decision making (Milliken & Martins, 1996). Diversity among board members and between board and management also risks potentially dysfunctional rivalries or fragmentation (Hambrick, 1995). In such contexts, developing a common ground is vital (Pettigrew & Fenton, 2000). Shared understandings facilitate trust, as individuals learn to value others' views and skills (Bradach & Eccles, 1989). According to David Johnson, chair, president, and CEO of Campbell Soup Company, governing bodies "should operate in an atmosphere of constructive discontent—tapping the positive tension that stems from shared values but distinct accountabilities" (*Harvard Business Review*, 1995: 153).

We propose two means of building shared understandings among directors and executives: (1) cooperative, strategic decision making and (2) greater informal and formal interactions. Involving directors, particularly outsiders, in strategic planning offers multiple benefits. As Andrews explains, such cooperation contributes "enormously to the board's education," creating a common familiarity with the firm's goals (1980: 36). Indeed, Kimberly and Zajac (1988) found that a highly involved board enhances governance. In addition, involvement may foster greater confidence in others' competencies, relaxing the "tension between outside directors and chief executive officers" (Andrews, 1980: 36). Rising goal alignment and trust may engender more "creative disagreement since the quality of interpersonal relationships . . . allows people to argue about ideas without fearing loss of acceptance or damaged relationships" (Keifer & Senge, quoted in Demb & Neubauer, 1992: 158).

Greater board-management interactions further facilitate shared understandings. For instance, many firms promote informal communications between external directors and a wide range of company executives. Demb and Neubauer (1992) have observed that some external directors are encouraged to visit foreign operations when their travel plans allow. Likewise, Bernard Marcus, chairman of Home Depot, noted that directors are asked to visit their stores and talk to associates and customers (*Harvard Business Review*, 1995). Directors typically visit eight stores every quarter, with each visit lasting approximately two hours. Such interactions enable directors to gather "soft" information about the firm and to develop common understandings. Greater familiarity with the field also may spark and inform productive board-management discussions.

Subcommittees offer a more formal setting for interaction. Studies suggest that affiliation with multiple subcommittees offers several benefits, such as reducing members' identification with a single group and offering varied sources of accurate and timely feedback (Lindsley et al., 1995). Directors may use such settings to advise executives, complementing rational controls. The smaller size and frequency of these interactions also encourage the building of social norms and friendships that enhance mutual trust. Likewise, the explicit responsibilities of subcommittees may reduce task complexity and aid systematic information processes (Lane, Cannella, & Lubatkin, 1998). Moreover, board and executive nomination committees can play a vital role in maintaining diversity by providing timely assessments of member differences and of firm needs. Such focus may prove vital, as changing conditions (e.g., competitive pressures, performance declines) require shifts in the insider-outsider balance (Daily & Schwenk, 1996).

In combination, promoting diversity and shared understandings may enable firms to harness the benefits of control and collaboration. Diversity fosters a variety of perspectives to enrich decision making, whereas shared understandings garner mutual trust and enhanced interactions.

> *Proposition 3b: Promoting diversity (e.g., insider-outsider mix, heterogeneous backgrounds) and shared understandings (e.g., board-management strategic decision making, informal and formal interactions) helps manage control and collaboration.*

External Interventions

When a system becomes incapable of correcting itself, external interventions may prove critical. Such interventions denote actions of external constituents that compel adaptation, helping firms overcome forces that perpetuate resistance (Ginsberg, 1988). For instance, blocks of institutional investors represent a potentially powerful means of pressuring change. Blockholders have the incentive and clout to monitor, bearing large proportions of costs associated with value-destroying strategies (Rediker & Seth, 1995; Sundaramurthy, 1996). Likewise, shareholder activism offers a highly visible source of criticism that may spur change (Davis & Thompson, 1994).

External interventions may counteract strategic persistence and escalating commitment by prompting a reorientation in strategic direction. Unlike decision makers, external constituents are less prone to view strategic change as ego threatening (Lindsley et al., 1995). In their study, David, Hitt, and Gimeno (2001) illustrate the potential impact of dissatisfied blockholders. By publicly criticizing board oversight and confronting complacent management, institutional investors destabilize managerial power and pressure strategic changes in line with shareholder demands (e.g., long-term investments in R&D). Similarly, Black (1992) notes that institutional investors who hold diversified portfolios have the motivation to discourage conglomerate acquisitions, which dilute managerial attention and depress firm value, and to urge divestment of unrelated businesses.

External interventions also facilitate changes in top management teams—changes that interrupt escalating anxiety and defenses. Activists might alter the power balance by influencing board and management turnover (Denis & Denis, 1995), thereby enabling more adaptive succession (Boeker & Goodstein, 1993; Cannella & Lubatkin, 1993). Likewise, pension funds may target firms to compel changes in their governance structures. For instance, Wahal (1996) notes that 40 percent of such proxy proposals were adopted by target firms. Similarly, private negotiations initiated by pension funds are often fruitful in promoting board diversity (Carleton, Nelson, & Weisbach, 1998).

External blockholders also may play the role of change agent. For example, block ownership efforts have shaped revisions in executive compensation (David, Kochhar, & Levitas, 1998; Hambrick & Finkelstein, 1995) and in directors' terms of office (Sundaramurthy, Rechner, & Wang, 1996).

In sum, blockholder monitoring and shareholder activism offer powerful deterrents to reinforcing cycles. External interventions provide purposeful shocks, potentially awakening firms to question their balance of control and collaboration and to remain wary of dysfunctional dynamics.

> *Proposition 3c: External interventions (e.g., blockholder monitoring or shareholder activism) help halt reinforcing cycles.*

CONCLUDING NOTE

> The context in which social relations and economic exchange are embedded can induce self-aggrandizement or trust, individualism or collectivism, competition or cooperation among participants. Economic progress requires both kinds of behaviors in each set of alternatives, not just one or the other (Ghoshal & Moran, 1996: 41).

In this article we have echoed Ghoshal and Moran's sentiment and advocated a fundamental reframing of governance issues that moves beyond either/or thinking. We have explored paradoxes of governance, contributing insights into control-collaboration tensions, reinforcing cycles they may fuel, and their potential management.

Alternative theoretical perspectives applied in governance might further inform the balance of control and collaboration. Resource dependence theory and contingency perspectives serve as an illustration. For instance, the nature of resources and information demanded may influence the appropriate mix of insider-outsider directors (Daily & Schwenk, 1996). Outsiders, on the one hand, might prove vital when a firm needs enhanced interfirm partnerships, boundary-spanning capabilities, and legitimacy (Boyd, 1995; Daily & Dalton, 1994). Research indicates that, in a crisis, greater outsider representation on the board helps garner valued resources and information (Daily & Dalton, 1994). Furthermore, the financial institutions represented on a firm's board may affect the amount and type of financing obtained (Stearns & Mizruchi, 1993). On the other hand, insiders become valued for their firm-specific knowledge when external resource needs are less salient. For instance, Hillman, Cannella, and Paetzold (2000) found that, under regulation, where market entry, exit, prices, and profit levels are largely determined by regulatory agencies, insiders are preferred.

Likewise, extended contingency studies of agency and stewardship prescriptions may offer additional insights. For example, several authors have studied interactions among internal and external control mechanisms, noting their roles as substitutes and complements (Morck et al., 1989; Rediker & Seth, 1995; Sundaramurthy, 1996). In future research scholars might build on this work, examining a similar interplay between control and collaboration.

Several contingencies, such as managers' psychological attributes and the firm's situational characteristics, potentially influence this relationship. For instance, some personalities may be more capable of remaining detached and objective while building trusting social ties. Therefore, the effective mix of intrinsic/extrinsic motivation and economic/social controls will likely vary.

In addition, a firm's life cycle, its external environment, or its institutional investors may influence the ebb and flow of control and collaboration. For example, greater social ties and cooperation in the boardroom may counterbalance the controls of a highly competitive external environment.

Longitudinal studies are ideal for examining the dynamics of governance paradoxes. Given the difficulties involved in collecting panel data, creative use of multiple data sources may facilitate research. In addition to traditional time-series databases, researchers can use organizational documents, letters to shareholders, corporate speeches, and published histories to construct organizational histories. For example, Hambrick and D'Aveni (1988) combined large-sample, archival data with a case study to capture dynamics of the decline process. In addition, historical data can be quantified using content analysis, which entails coding text to identify specific constructs and patterns. This approach may be particularly useful for identifying managerial attributions and changing norms and values (D'Aveni & MacMillan, 1990).

Furthermore, complementing secondary data with primary data offers great potential. Audia et al. (2000), for instance, conducted two studies of strategic persistence: an archival study to investigate organizational inertia over a ten-year period and a laboratory simulation to examine underlying processes of decision making. This combination provided rich insights into the organizational and psychological dynamics of strategic persistence.

In closing, governing a modern corporation is an intricate challenge driven by competing needs and perspectives. Theory and practice that embrace such complexity are increasingly imperative. In this article we have taken a step in this direction, building theory that embraces varied theoretical perspectives to accommodate human limitations and aspirations and to underscore vital control *and* collaboration needs. We hope this work motivates future research aimed at understanding the dynamic balance among governance imperatives rather than privileging one over the other.

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