

INTERNAL REPRESENTATION AND FACTIONAL FAULTLINES AS ANTECEDENTS FOR BOARD PERFORMANCE IN SOCIAL ENTERPRISES

by

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ABSTRACT: *There is an increasing scholarly interest in how social enterprises manage their hybrid nature. As hybrid organizational forms, social enterprises combine mission-driven social goals and revenue generating activities in a variety of organizational constellations and in diverse institutional contexts. Acknowledging the potentially conflicting demands that institutional environments impose on social enterprises there is an increasing research interest in the existence and proliferation of these conflicting demands at the organizational level. Some researchers have pointed to the importance of particular management practices and governance characteristics – such as authority relations and internal representation – as mechanisms to deal with the conflicting demands at the organizational level. This paper adds to this stream of literature by taking into account the organizational level dynamics of internal representation and the proliferation of factional groups in the boards of directors of hybrid organizational forms and their impact on board performance, ultimately influencing the organizational performance.*

Keywords: hybrid organizational forms, governance, factional faultlines

1 Introduction

There is a consensus that organizations are increasingly exposed to enduring, multiple, possibly conflicting institutional logics (Besharov and Smith 2014, Dunn and

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Jones 2010, Purdy and Gray 2009), which are considered as taken-for-granted rules that guide the behaviour of organizations (Friedland and Alford 1991, Greenwood and Suddaby 2006, Tracey et al. 2011). The confrontation with multiple, potentially conflicting logics is all the more relevant in the context of hybrid organizational forms such as social enterprises, which are characterized by their concurrent endeavour for achieving mission-driven social goals and revenue generating activities, in a variety of legal and structural constellations and in diverse institutional contexts (Doherty et al. 2014, Mair and Marti 2006, Moss et al. 2011, Townsend and Hart 2008, Wilson and Post 2013). Although most research in this realm has focused on the institutional field level (Lounsbury 2007, Purdy and Gray 2009), some recent publications have looked at how organizations internally deal with the conflicting demands that emerge from the different institutional logics (Besharov and Smith 2014). For example, management practices (Battilana and Dorado 2010, Pache and Santos 2013), internal representation (Pache and Santos 2010) and the particular context of failing social enterprises (Tracey et al. 2011) have been subject of some research. Research on managing the hybrid nature of organizations such as social enterprises however, has not extensively focused on governance characteristics, beyond acknowledging the relevance and importance (Pache and Santos 2013, Renz and Andersson 2014, Spear, Cornforth, and Aiken 2009) as core organizational features of what constitute (hybrid) organizational forms (Greenwood and Suddaby 2006).

An important exception is Pache and Santos' work (2010) in which they discuss the use of internal representation as a mechanism to deal with different institutional pressures. Internal representation entails that the different institutional logics are represented in the organization (management team, board of directors, staff members). Although it is noted that internal representation possibly leads to the formation of subgroups, its impact on board performance and subsequent organizational performance remains unclear (Huybrechts 2010, Spear et al. 2009). Interestingly, however, these research efforts clearly follow the current concerns of governance research. More specifically, employing agency theory as dominant theoretical perspective, governance research' empirical studies on the relationship between board characteristics and board and organizational performance are not conclusive and have prompted calls to open the black box of board dynamics (Huse et al. 2011, Van Ees et al. 2009).

Several organizational scholars have suggested the constructs of factional groups and faultlines to study the behaviour of subgroups in teams (Thatcher and Patel 2012, Tuggle et al. 2010), such as boards. Factional groups represent the idea that group members often join a team as a representative of a group – not merely as an individual – which is in line with the purpose of internal representation (Li and Hambrick 2005). Faultlines refer to the fact that the alignment of characteristics of team members may result in the generation of subgroups possibly leading to conflicts (Lau and Murnighan 1998).

As internal representation can be both beneficial or detrimental to organizations (Pache and Santos 2010), we theoretically develop the argument that factional groups and faultlines are explanatory constructs for the effects of internal representation of competing logics in the board on subgroup formation in the board and board performance (ultimately influencing the performance of hybrid organizational forms). Doing so, this paper explicitly takes into account Pache and Santos' (2010) suggestion for studying the extent of internal representation and the existence of different subgroups in the

organization to better understand how hybrid organizations' responses to conflicting institutional demands impact board performance and subsequent organizational performance.

The paper unfolds along the following lines. First, we provide an overview of the literature on competing logics and governance of hybrid organizational forms. More specifically, we address the organizational level challenges researchers have identified in dealing with conflicting institutional demands and discuss how a governance perspective in general and constructs such as internal representation and factional faultlines in particular, can inform the development of a theoretical framework. Next, we discuss aspects that might be relevant to study factional groups and faultlines in boards of hybrid organizational forms and that can result in a better understanding of the relationship between the management of the conflicting demands at the board level and subsequent board/organizational performance. Finally, we point to the main contributions of this endeavour and how it can inform empirical research.

2 Conflicting logics and governance in hybrid organizational forms

Hybrid organizational forms refer to organizations that combine and integrate different institutional logics (Battilana and Dorado 2010). These institutional logics are considered as taken-for-granted social prescriptions that constitute the organizing principles of society (Friedland and Alford 1991) and provide formal and informal rules, including norms, values and beliefs, guiding decision makers in organizations about what is appropriate behaviour within an organizational field (Thornton 2002). In the literature there are many examples of organizational fields where organizations are exposed to multiple, possibly competing, logics, resulting in a variety of hybrid organizational forms. Additionally, there is a growing consensus that multiple logics can persist, creating dynamic tensions between fluctuating logics (Dunn and Jones 2010, Greenwood, Díaz, Li, and Lorente 2010). Examples of such organizations are offices of dispute resolution combining a judicial logic and a social service logic (Purdy and Gray 2009), medical education institutions incorporating healthcare and academic logics (Dunn and Jones 2010), social enterprises combining social and commercial logics (Battilana and Dorado 2010, Tracey et al. 2011).

Research to date mainly examined the organizational field level which reveal the coexistence of multiple institutional logics and contribute to the explanation of variance in organizational practices and the emergence of new organizational forms (Lounsbury 2007, Purdy and Gray 2009). Despite a number of noteworthy exceptions (Battilana and Dorado 2010, Besharov and Smith 2014, Pache and Santos 2010, Reay and Hinings 2009), little research has focused on how organizations deal with conflicting logics internally. However, governance research does point to the importance of key decision makers such as management teams and boards of directors in addressing organizational level goals and strategies and in resolving tensions that possibly emerge from this (Bongjin et al. 2009). More importantly, Pache and Santos (2013) point to these governance arrangements as the central locus of where existing institutional logics actually impose conflicting demands. Therefore we subsequently summarize (1) the noteworthy exceptions of papers that have theorized about and empirically investigated organizational level challenges in dealing with conflicting demands, and (2) the governance literature

in the context of hybrid organizational forms, so as to argue that governance constructs – internal representation and factional faultlines in particular – are promising constructs to gain insight in how hybrid organizations deal with their hybridity on a day-to-day basis.

2.1 Organizational level challenges in dealing with conflicting demands

Dealing with competing demands challenges hybrid organizations to incorporate practices that may not always be compatible (Tracey et al. 2011). This can result in the emergence of coalitions and conflict within the organization (Battilana and Dorado 2010, Besharov and Smith 2014). It has been argued that introducing practices prescribed by one logic, may result in a decreasing legitimacy towards important institutional referents from the other logic (Pache and Santos 2010). In their pursuit of studying how organizations deal with competing demands internally, Battilana and Dorado (2010) investigated commercial microfinance organizations as new organizational forms, incorporating two formerly separate institutional logics: a development logic and a banking logic. Their results show that in order to be sustainable hiring and socializing policies are crucial, leading to the creation of a common organizational identity.

In contrast Reay and Hinings (2009) studied a mature organizational field, health care, where the government introduced a new logic of business-like health care, challenging the previous dominant logic of medical professionalism. They found that managers and physicians used different forms of collaborative relationships to manage the rivalry of the two logics, maintaining their independence and their separate identities.

Pache and Santos (2013), in turn, studied four work integration social enterprises (WISEs), which aim at reintegrating long-term unemployed people by offering them a job and individual support. They combine the competing social welfare and commercial logics. The results reveal that hybrid organizations use ‘selective coupling’, meaning that they combine elements from each logic. By doing so they try to deal with the conflicting demands they are exposed to. This is in line with the theoretical model developed by Pache and Santos (2010) studying organizational responses to competing institutional logics taking into account ‘intraorganizational political processes’. They argue that competing logics may influence organizations at the ideological level (what are the goals of the organization?) or at the functional level (what are appropriate means?), leading to different organizational responses. In addition, organizations differ in the extent that the competing logics are represented internally. Internal representation is the result of hiring practices of organizational members (managers, staff members, board members), that accidentally or purposefully, internalize the various logics (Battilana and Dorado 2010, Doherty et al. 2014, Pache and Santos 2010). In their empirical research in work integration social enterprises (WISEs), Pache and Santos (2013) identified ten elements, structural choices as well as management practices, on which logics impose conflicting demands. Their results show that structural choices such as organizational form and governance arrangements, are especially prone to be confronted with these conflicting demands since they are responsible to attend to the organizations’ goals and strategies and tensions that emerge from this. Clearly, these contributions agree that structural choices and management practices of hybrid organizational forms are crucial in order

Table 1 – Potential positive and negative effects of internal representation in the board

| Positive effects of internal representation | Negative effects of internal representation |
|--|--|
| <ul style="list-style-type: none">• Balancing the competing logics in decision making• Alignment of stakeholder and manager interests• Better communication with stakeholder groups• Access to resources (information, skills, financial resources, . . .) | <ul style="list-style-type: none">• Conflict due to the emergence of subgroups in the board• Slow down the decision making process• Organizational paralysis or even organizational breakups |

Sources: Huybrechts (2010), Huybrechts et al. (2014) ENREF 32, Mason et al. (2007),Mason (2010), Pache and Santos (2010), Spear et al. (2009)

to deal with the conflicting demands that emerge from their hybridity. Governance arrangements in general and internal representation in particular are argued to be crucial structural choices in the context of hybrid organizational forms, which we elaborate in the next section.

2.2 Governance in hybrid organizational forms

Scholars studying governance issues in hybrid organizations have specifically focused on the representation of the different logics in the board of directors. However, as shown in table 1, internal representation of different stakeholder groups, representing different logics, can have positive as well as negative effects.

Internal representation is often considered as a good practice in order to balance the competing logics in the decision making process (Pache and Santos 2010). Mason (2010) focused on the risk that environmental pressures towards professionalization and competitiveness will lead to the erosion of social values in the context of social enterprises, which inherently aim at combining a social and an economic logic. Internal representation in the board is therefore considered as a feature of social firm governance, leading to the alignment of stakeholder and manager interest and preserving the social orientation of the organization. Empirical research in fair trade organizations (Huybrechts and Defourny 2008) reveals that the composition of the board has indeed an influence on the relative importance of social and economic goals. Moreover, internal representation facilitates the communication with stakeholder groups. Through representation in the board stakeholders can provide valuable input, resulting in the use of a broader range of resources, for instance, in strategy development (Huybrechts et al. 2014, Mason et al. 2007). However, different authors warn for the possible negative effects of internal representation. Internal representation may result in the emergence of subgroups, defending the interest of ‘their logic’. If this is the case, representation is possibly not useful to balance the competing logics in the decision making process. Tension between different subgroups in the board can make it difficult to achieve a clear purpose and can slow down the decision making process (Huybrechts 2010, Spear et al. 2009). Pache and Santos (2010) even warn for ‘dramatic outcomes’. Escalations of conflict may result in organizational paralysis or even more permanent organizational

breakups. These detrimental effects may occur when the power structure between the subgroups is balanced and no clear 'winner' emerges (Glynn 2000, Pache and Santos 2010).

This approach to governance is clearly different from the agency perspective that has dominated governance research for decades, as well in a for-profit (Daily, Dalton, and Cannella 2003, McDonald and Westphal 2010) as in a nonprofit context (Jegers 2009, Renz and Andersson 2014). In this perspective, the board of directors is expected to monitor the managers by performing audits and performance evaluations. In order to be effective in its monitoring role, agency theorists stress that the board of directors must be independent from the management. Two structural variables are widely discussed and used in empirical research to measure board independence: board composition and board leadership structure (Daily et al. 2003, Dalton et al. 1998). Considering board composition, a higher number of outside directors, an increasing board size and boards with a lower average tenure, are seen as important indicators of a higher independence of the board from the management. Leadership structure refers to what is known as 'CEO duality', meaning that the chair of the board and the CEO are the same person. Agency theorists are not in favor of CEO duality (Boivie et al. 2011, Hillman and Dalziel 2003). Even though agency theory is dominant in governance research, different theories have challenged the basic assumptions of agency theory. For instance, stewardship theory, with its roots in psychology and sociology, does not follow the assumption that all managers are self-serving and stresses the importance of the board for managerial empowerment (Davis et al. 1997, Davis et al. 2010). From a resource dependency perspective, the board is important for the provision of resources. Boards are considered as boundary spanners that link the organization with the external environment, providing resources such as advice and counsel, channels for communicating information and assistance in obtaining resources (Hillman and Dalziel 2003, Hillman et al. 2009). Despite of the different theoretical perspectives, 'input-output-studies', focusing on the (direct) relationship between board composition and organizational (financial) performance, have been dominant in empirical research (Gabrielsson and Huse 2004, Huse et al. 2011). Moreover, the results are not conclusive, suggesting that the relationship between governance structure and organizational performance is more complex (Daily et al. 2003, Dalton et al. 1998). Due to this inconsistency in empirical results, several calls are made to broaden the scope of governance research, as well in a profit (Huse 2005, Pye and Pettigrew 2005) as in a non-profit context (Cornforth 2012, Ostrower and Stone 2010). Although these calls are not new (Daily et al. 2003, Gabrielsson and Huse 2004), they seem to be still relevant (Cornforth 2012, Huse et al. 2011). Most of the governance research treats the board as a homogeneous, monolithic unit (Gabrielsson and Huse 2004, Jegers 2009). By focusing exclusively on the impact of the full board on organizational performance, the relationship between different subgroups in the board and the decision making processes in the board are neglected (Daily et al. 2003, Hambrick et al. 2008). Hambrick et al. (2008) recognize the value of research on formal structure, but point to the importance of studying in addition the 'behavioural structure' (e.g. power relations between key corporate actors) and 'behavioural processes' (e.g. boardroom processes giving insight in board room decision making) in organizations. They stress the importance of transcending the principal-agent problem between shareholders and management. Instead complex matters such as multiple stakeholders, boardroom dynamics and managerial values and motives have to be taken

into account (Hambrick et al. 2008). As an answer to these calls, board dynamics are studied using process variables such as conflict, commitment of board members and board critical debate (Minichilli et al. 2009, van Ees et al. 2008). Next to the use of surveys and interviews to collect data, scholars start to use alternative methods to learn about board processes and behaviour. Examples are observation of board meetings and focus groups (Beck 2014, Hough et al. 2014) and content analysis of transcripts of board meetings (Tuggle et al. 2010).

This theoretical paper also is an answer to the calls made to open the black box of board behaviour. The literature on governance in hybrid organizational forms does not offer an explanation as to why internal representation results in the emergence of subgroups in some organizations while this is not the case in other organizations. This paper introduces factional groups and faultlines as a possible explanation for the effects of the internal representation of competing logics in the board on subgroup formation, ultimately influencing board performance in hybrid organizational forms.

3 Factional groups and faultlines in boards of hybrid organizational forms

In this section we discuss the internal representation of competing institutionally logics in the board of directors in relationship to the emergence of factional groups and subsequent board performance. As such, internal representation is conceptualized as a way to respond to conflicting institutional demands at the organizational level.

3.1 Factional faultlines and perceived subgroup formation

The concepts of factional groups and fault lines have their origin in research on team diversity and team heterogeneity. Although team members' traits are important for the way they address issues, the heterogeneity or homogeneity of these traits among team members is important to understand team behaviour (Tuggle et al. 2010). Results of research on team diversity reveal that diversity may have positive as well as negative effects on team performance, and by consequence on organizational performance in the case of board diversity (van Knippenberg et al. 2011). Diversity in a team can be a source of knowledge, information and expertise, leading to better results. This argument is in line with the earlier mentioned positive effects of internal representation in the board (Diochon 2010, Smith 2010). On the other hand, diversity is also a possible source of conflict, engendering subgroups that may disrupt team processes and by consequence team performance. These warnings are similar to the warnings related to the possible negative effects of internal representation in boards (Pache and Santos 2010, Spear et al. 2009).

Because of the mixed effects of heterogeneity in teams, calls are made to introduce more sophisticated models of diversity that are better able to predict the negative or positive effects of diversity (Lau and Murnighan 1998, Tuggle et al. 2010, van Knippenberg et al. 2011). The introduction of the fault line concept by Lau and Murnighan (1998) can be considered as an answer to these calls. Group fault lines are defined as 'hypothetical dividing lines that may split a group into subgroups based on one or more attributes' (Lau and Murnighan 1998). Instead of studying the effect of diversity by looking at

different traits separately, different dimensions of diversity are studied in conjunction (Bezrukova et al. 2009, Rico et al. 2007). For instance when in a team all the women have an economical educational background and all the men have a social educational background, the dimensions gender and educational background are aligned. Faultlines become stronger when more attributes are aligned in the same way (Lau and Murnighan 1998).¹

The theoretical mechanisms used to explain the emergence and the effects of faultlines are self-categorization, social identification and similarity attraction (Thatcher and Patel 2012). Self-categorization and social identity theories explain that individuals, in order to define their identities and to protect their self-esteem, classify themselves and others into social categories. As a result of this categorization, individuals favor and trust their group members more than individuals of other groups (Lau and Murnighan 2005, Rico et al. 2007). The similarity-attraction paradigm refers to the tendency of people to like, trust and cooperate with similar others (Li and Hambrick 2005, van Knippenberg et al. 2011).

Li and Hambrick (2005) introduced 'factional groups', a concept related to group faultlines. While the faultline theory implicitly assumes that group members become part of a team as independent actors, these authors argue that this is not always the case. For instance, when members are representatives of a group. Li and Hambrick (2005) argue that in that case of pre-existing faultlines, these become stronger to the extent that the two (or more) factional groups differ in additional characteristics. They refer to these situations as 'factional faultlines'. Examples of situations where group members come as representatives and not as independent individuals, are for example a merger integration team with representatives of the two companies that merge (Li and Hambrick 2005), family and non-family members in a family-owned company (Minichilli et al. 2010). Specifically in governance research, executive and non-executive directors are studied as different factional groups as representatives of the management and the owners of an organization (Kaczmarek et al. 2012). In the case of social enterprises representatives of different stakeholder groups can be considered as different factional groups. If the members of these factional groups differ in additional characteristics, factional faultlines emerge. This is the case when, for instance, the representatives of one stakeholder group are mainly older people with a social background, while the representatives of another stakeholder group are mainly younger people with an economic background

Although it is generally accepted that faultlines can form around many characteristics (Lau and Murnighan 2005, Thatcher and Patel 2012), the majority of faultline research has focused on faultlines based on demographic characteristics, also called social category characteristics (Bezrukova et al. 2009), such as age, gender and ethnicity (Rico et al. 2007, Thatcher and Patel 2012). It is argued that demographic faultlines are relevant because in new groups initial impressions are based on outstanding physical characteristics, possibly leading to categorization, stereotyping and prejudice (Bezrukova et al. 2009, Lau and Murnighan 1998). In addition informational or task-related characteristics are studied in faultline research. Informational characteristics are under-

1 There are different ways to measure faultlines. Thatcher and Patel (2012) offer an extensive overview of how to measure faultlines, including the advantages and the disadvantages of different methods.

lying attributes that are directly job-related, such as functional background, tenure, education (Bezrukova et al. 2009, Rico et al. 2007). Also personality traits and values are considered as being a possible source of faultlines. However personality faultlines are least studied (Thatcher and Patel 2012). Conscientiousness and emotional stability are examples of personality traits that are examined in faultline research (Molleman 2005, Rico et al. 2007).

Taking the research on conflicting demands in hybrid organizational forms (i.e. internal representation as a way to deal with conflicting demands) and the research on faultlines and factional groups together, we theoretically expect that the existence of factional groups will be related to the different logics hybrid organizational forms are exposed to. In the case of social enterprises this means that we theoretically expect that the emergence of factional groups in the board will be related to representatives of the economic logic versus representatives of the social logic.

According to different authors, the existence of faultlines however will not automatically affect team processes. Jehn and Bezrukova (2010) argue that it is critical for faultline research to examine the activation of faultlines. They make the distinction between dormant faultlines, i.e. potential faultlines based on the alignment of characteristics and activated faultlines, where team members actually perceive subgroups. The importance of activated faultlines in order to have an influence on team processes, is also stressed by other authors (Li and Hambrick 2005, van Knippenberg et al. 2011). Although empirical results are not conclusive regarding the relevance of the distinction between dormant and activated faultlines, we consider the activation of faultlines to be important in the case of hybrid organizational forms because different scholars point to the perceived subgroup formation as a reason for the negative effects of internal representation (Huybrechts 2010, Pache and Santos 2010, Spear et al. 2009). This means that it seems relevant in the context of social enterprises to find out whether the existence of different factional groups in the board related to the social and the economic logic results in a situation where board members actually perceive subgroups.

3.2 Perceived subgroup formation and board performance

In empirical research the effect of faultlines is studied on group processes, such as conflict and cohesion (Jehn and Bezrukova 2010, Lau and Murnighan 2005, Li and Hambrick 2005, Rico et al. 2007), on affective outcomes, such as satisfaction (Jehn and Bezrukova 2010, Rico et al. 2007) and on performance outcomes, such as decision making and group performance (Bezrukova et al. 2009, Rico et al. 2007). The majority of studies investigating the relationship between faultlines and diverse forms of conflict (relationship, task and process conflict) have found a positive and significant relationship (Jehn and Bezrukova 2010, Li and Hambrick 2005, Molleman 2005). Strong faultlines have been found to influence negatively group performance, perceptions of performance and behaviours that affect performance such as information exchange and collaborative behaviour (Bezrukova et al. 2009, Jehn and Bezrukova 2010, Kaczmarek et al. 2012, Thatcher and Patel 2012). As discussed earlier, scholars studying governance issues in hybrid organizational forms point to the fact that internal representation of the different logics in the board can have positive as well as negative effects on the functioning of the

board. Internal representation can be positive if the internal representation results in balancing the different logics (Mason 2010, Pache and Santos 2010). However, internal representation can also be negative if subgroup formation hinders the functioning of the board, possibly leading to ‘organizational paralysis’ or even worse, organizational breakup (Huybrechts 2010, Pache and Santos 2010, Spear et al. 2009). The functioning of the board is often studied as ‘board performance’, taking into account board processes and practices (e.g. conflict management and decision making) and board culture (e.g. board dynamics, degree of trust) (2005, Van den Bergh and Levré 2004). Because board performance incorporates the earlier studied effects of faultlines and is expected to influence organizational performance (Herman and Renz 2008, Minichilli et al. 2007), we argue that it is relevant to study the relationship between perceived subgroup formation (i.e. activated faultlines) and board performance in the board of hybrid organizations, such as social enterprises.

3.3 The importance of shared organizational goals in dealing with factional faultlines

Where initially research focused on the effects of faultlines on different outcomes, recent research has focused on finding ways to mitigate the negative effects of faultlines on performance (Li and Hambrick 2005, van Knippenberg et al. 2011). The main idea here was to find factors that increase the categorization as one team instead of categorization in subgroups. Factors that are found to attenuate the effect of a strong faultline are team identification (Bezrukova et al. 2009, Jehn and Bezrukova 2010) and the existence of clear and shared objectives by the team (van Knippenberg et al. 2011). This is in line with the theoretical model of Pache and Santos (2010). They argue that the effects of subgroup formation in hybrid organizations forms depend on whether there is a consensus in the board about the goals of the organization. If this is the case, the negative effects of internal representation in hybrid organizational forms can be expected to be attenuated. Therefore we argue that ‘shared organizational goals’ will weaken the negative relationship between perceived subgroup formation and board performance, revealing the relevance of board development practices that may contribute to a shared vision of board members on the goals of the organization (Gill et al. 2005, Renz and Andersson 2014). Board evaluations as well as team building are discussed as board development practices (Gill et al. 2005). Kiel and Nicholson (2005) mention ‘clarifying strategic focus and corporate goals’ and ‘builds trust between board and members’ as potential benefits of board evaluations. Both are important in order to attenuate the possible negative effects of faultlines and subgroup formation. According to Minichilli et al. (2007) boards can be evaluated using different techniques, such as open discussions during board meetings or special meetings dedicated to board development. Discussing the strategy and the corporate goals in the board, can contribute to find a consensus about the goals of the organization, attenuating the negative effects of subgroup formation. Another technique of board evaluation often referred to is self-assessment. In the literature self-assessment questionnaires or check lists are available (Gill et al. 2005, Herman and Renz 2004, Jackson and Holland 1998, Nicholson et al. 2012). Given the importance of shared organizational goals in weakening the negative effects of subgroup formation, board evaluation not only has to focus on the functioning and the communication within the board, but also on the strategy and the goals of the organization (Kiel and Nicholson 2005).

Board chairs probably can play a significant role in attaining a shared vision in the board about the goals of the organization. Harrison, Murray, and Cornforth (2013) found that exceptional chairs help the board to setting the broad direction for the organization and increased board commitment to the mission. Also informal board teambuilding activities can enhance the communication within the board. Tuggle et al. (2010) studied 'board informality' in relationship to faultlines. They found that holding meetings off-site and agenda openness attenuate the negative effects of faultlines. The rationale behind this is that a less formal environment encourages communication and information sharing between board members. The same holds for 'agenda openness': if the agenda of board meetings is not too detailed, there is the possibility to discuss and share ideas within the board, making it easier to build a shared vision about the goals of the organization.

4 Conclusion and contribution

This paper is a first attempt to explain the effects of internal representation of competing institutional logics in the boards of hybrid organizational forms. The literature points to both positive as well as negative effects of internal representation. Positive effects of internal representation include the appropriate balancing of conflicting demands that emerge from competing institutional logics and a better understanding of and communication with stakeholders groups (Huybrechts 2010, Mason 2010, Mason et al. 2007). Concurrently however, several authors warn for tensions and conflicts between subgroups, resulting in slower decision making, which is an important aspect of board performance (Pache and Santos 2010, Spear et al. 2009). We introduced factional faultlines and their effect on perceived subgroup formation as a possible explanation to the effects of internal representation on board performance. If subgroups are perceived within the board, this will negatively influence board performance. Shared organizational goals are expected to attenuate the negative effects of subgroup formation. Board development practices, such as team building and board evaluations, may contribute to a shared vision of the board members. Building on board leadership research, also board chairs probably can facilitate a consensus on what the organizational goals are.

This paper contributes to existing research in several ways. First, it is one of the first attempts to integrate a key challenge of hybrid organizational forms – managing the conflicting demands at the organizational level, which emerge from the competing logics in which they operate by their very nature – and the issue of internal representation and factional faultlines, which is a promising area for empirical research from a governance and organizational behaviour perspective. As such, it identifies how boards of hybrid organizational forms possibly manage their hybrid nature and how this influences board performance and subsequent organizational performance. Although the research interest is growing, research on this topic is still limited (Battilana and Dorado 2010).

Second, our theoretical approach is an answer to the calls made to open up the black box of board behaviour and move away from a descriptive account of board demographic characteristics. Approaching the governance challenge in hybrid organizational forms by looking at board dynamics through the constructs of internal representation and factional faultlines, is a clear shift away from the agency perspective that has dominated governance research for decades (Daily et al. 2003, McDonald and Westphal

2010). It is an answer to the calls made in governance research to take a broader perspective than the manager-shareholder perspective and to take into consideration the importance of boardroom dynamics and managerial goals.

Third, this paper is a contribution to the study of faultlines and factional groups because of the specific focus of factions and faultlines in hybrid organizational forms.

In this paper we explicitly take into account the possible negative effects of internal representation in the context of hybrid organizational forms. Acknowledging this is important as establishing a board that only represents one institutional logic – so as to avoid the negative effects of internal representation, is undesirable in function of successfully managing the hybrid nature of the organization. As it is difficult to anticipate the emergence of faultlines while appointing board members, it is important to gain insight in how internal representation and factional faultlines occur and develop in relation to shared organizational goals. Additionally, it is interesting to study board development practices and board leadership in order to attain a shared vision on the goals of the organization. As such, we can increasingly come to understand how the potential negative effects of subgroup formation can be attenuated. Including process related constructs at the team level can be considered as a clear valued added to empirical research that takes this theoretical approach as a point of departure.

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