# The Strategic Decision Making Process of the Board

# and its Impact on Decision Outcomes

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# ABSTRACT

**INTRODUCTION**

Why is arriving at a high-quality, consequential decision important for an association's board of directors? According to the American Society of Association Executives (ASAE is a nonprofit association of CEOs of professional societies and trade associations), associations have the power to transform society (ASAE, n.d.a). From improving the lives of those suffering from chronic pain to encouraging good sportsmanship among college athletes, associations help their members attain their goals. It is important that the boards of these organizations make high-quality, consequential decisions so that their members can continue to prosper and flourish professionally.

After surveying the field for the most pressing issues affecting its members, the American Pain Society (APS) concluded that proper administration of pain prevention and relief was not being consistently addressed in healthcare settings across America. Therefore, the board of directors of APS decided to tackle this tough issue and consequently created a new program—the Clinical Centers of Excellence in Pain Management program—which recognizes and rewards excellence

in quality clinical care. By approving and implementing this vital program, the board accomplished their goal of raising the bar for the administration of pain management across institutions nationwide.

The IRS defines an association, such as APS, as "a group of persons banded together for a specific purpose" and classifies associations as nonprofit organizations. With more than 86,054 trade and professional associations in the United States (ASAE, n.d.), nearly every man, woman, child, profession, and industry is represented by an association.

Because association boards are composed of professionals within the community they serve (direct stakeholders and either competitors or peers with little or no responsibility for implementation of decisions), the group decision-making model in the association community is unlike the corporate environment (where hierarchies are meaningful and often one person is ultimately accountable for a decision or action) and the general nonprofit community (in which directors often are not direct stakeholders and CEOs own the mission).

Nonprofit boards often struggle to focus on important issues (Carver, 1997; Taylor, 1996)— those that are considered game changers or could possibly move a profession or industry forward. Board members have limited time to devote to the strategic issues that confront their associations (Andringa, 2004). Therefore, it is essential they use their time productively by focusing on strategic decision making. To achieve this, boards must use a process that is deemed fair and helps them manage conflict and promote understanding to arrive at high-quality decisions. Nonprofit boards that focus on strategic issues and corporate groups that make decisions based on good processes with fair

positioned to be more successful at making high-quality decisions than those that do not (Brown, 2005; Huse, 2007).

The current literature neglects decision processes, conflict, and decision quality for associations (see **Figure 1**). Because associations work differently than corporations (e.g., associations use committees or task forces to achieve consensus among peers), applying the existing research regarding how conflict impacts decision outcomes is not directly relatable to the association setting.

**Figure 1.** Decision-Making Literature Gap
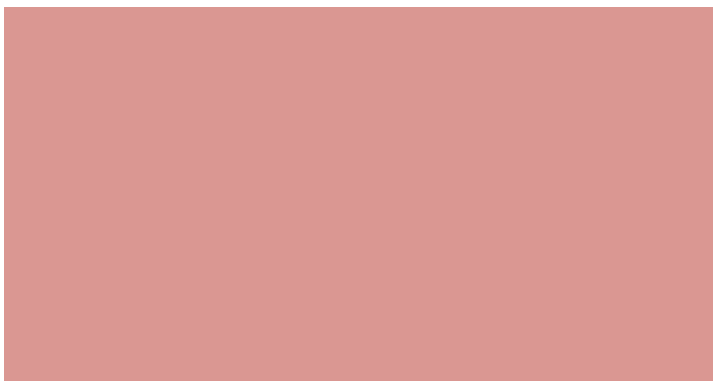
Our research addresses the gap in literature around how association boards make high-quality, consequential decisions, adding the idea that decision outcomes driven by fair and sound processes can encourage good group dynamics to the dialogue.

This research adapts well-validated ideas from

The board is the apex of an organization's strategic decision system (Fama & Jensen, 1983;

Forbes & Milliken, 1999) and is therefore a key decision-making group. However, there has not

been a great deal of research examining how boards actually work or how they make decisions

(Leblanc, 2003). According to the behavioral theory of boards, when board members are

considering and debating strategic issues they are guided by past experiences. They rely on

general rules and lessons learned to inform information gathering and decision-making

structures, procedures, and rules (Huse, 2007); these concep

This research investigated Wooldridge and Floyd's (1989) claim that consensus reflects

members' *understanding*

dumped by participants as they are generated" (Cohen, March, & Olsen, p. 2). One can visualize

decision routines while Janis, Tyler and Blader, and others document group dynamics. **Fi**

is a consolidation of Mintzberg and colleagues' (1976) 25 decision processes tha

refined through Nutt (1984), Coleman (2007), and DeSanctis and Gallupe (1999

Mintzberg and colleagues' work, Hosking (1991), Judge and Zeithaml (1992), a

characterize decision-making processes in similar phases of issue identification a

development and selection, and implementation.

**Figure 2**: Decision Steps Model
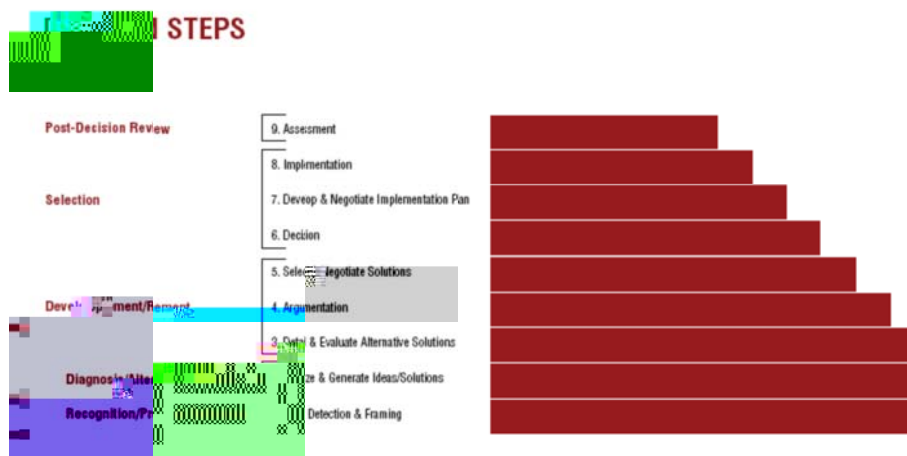


Although the decision steps model depicts a linear model for how a board naviga

process, our research indicated that boards deliberating consequential issues actu

a recursive pattern, similar to "taking two steps forward and one step back" (Eng

Boards may loop through the process to step six only to hit a roadblock and retu

Both the quality of the decision and board members' commitment to that decisio

if the organization is to be well governed. Both of these aspects should benefit fr

permit the board to engage in additional data collection and analysis during stalemates, herein referred to as a looping process. Using such rational routines allows boards to explore an issue in-depth and engage in good debate while managing tensions so that their members can reach consensus and be committed to the ultimate decision.

According to Dean and Sharfman (1996), one of the most important aspects of the decision process is the collection of information relevant to the decision and the reliance on information analysis to make a choice; this is otherwise known as reaching consensus (Dean, 1996). When decision actors follow routines and apply learned rules of thumb, they avoid uncertainty and reduce a situation's complexity (Choo, 1996).

Although it is important that boards successfully navigate the decision-making process, referred herein as routines, doing so in a manner that is fair to all participants is critical to produce positive decision outcomes. Tyler and Blader (2000) identify procedural justice as the fairness of processes by which decisions are made as well as the fairness of how individuals are treated. Procedural justice research demonstrates that individuals can identify with an outcome with which they disagree if they assess the decision-making procedures to be just (Tyler & Balder, 2003). Tyler and Balder found considerable variation in the manner in which people treat one another in group settings. "They can act politely, rudely, respectfully, with hostility, and so on. These aspects of the interpersonal experience of a procedure—which occur in the context of an interaction whose overt purpose is to make a decision to allocate resources or resolve a conflict—may also influence those who are

navigate the decision-making process and the interpersonal relationships (as identified by Tyler and Blader) they relied upon.

**Group Dynamics.** The next area of literature review pertained to group dynamics and included managing conflict and promoting understanding. Although conflict in the corporate arena has been thoroughly researched and linked with decision quality, the nonprofit community has been overlooked. In the association community the consensus approach is highly valued in decision making (Engle, 2008); however, in the corporate environment decision making is a more linear (and thus hierarchical) process (Mintzberg et al., 1976).

In his study conducted at the U.S. Air Force Survival Training School, Torrance (1957) found that a willingness of individuals to disagree with the group improves a decision's accuracy because it increases the range of judgments being considered. Schweiger and colleagues (1989) reported that when groups make decisions, consensus creates a less combative environment than debate. Serially staging dissent and support is one approach to reconciling the contradiction that dissent should precede an actual decision but consensus building should ensue after the decision is made (Dooley & Fryxell, 1999). Dooley's position, however, is that instead of taking a serial approach, effective strategic decision-making teams are somehow able to synthesize the contradictory forces of dissent and consensus during the strategic decision-making process (Dooley & Fryxell).

Studies in corporate America regarding high-quality decision making have established the important roles conflict and trust play in this process (Amason, 1996; Dooley & Fryxell, 1999; Parayitam & Dooley, 2007). Parayitam and Dooley reported on two significant types of conflict that have performance implications: cognitive and affective. Their studies indicated that *affective*

conflict (personalized conflict that may reflect emotional and political factors) and *cognitive*

conflict (conflict regarding conflicting perspectives and their application to the issue) have

important and differing results on decision qual

environments (Amason, 1996; Dooley & Fryxell, 1999; Parayitam & Dooley, 2007). Wooldridge and Floyd (1989) assert that consensus reflects members' understanding of a strategic decision and commitment to it, increasing its chances for implementation.

Decision consensus was researched by Parayitam and Dooley (2007) who extended Amason and Schweiger's work on the subject. According to Amason and Schweiger (1994), a "team reaches consensus when its members have a thorough knowledge of and are committed to a particular decision" (p.241). In the corporate decision-making literature, Amason and Wooldridge and Floyd, among others, interchange the terms "decision commitment" and "consensus." To reach consensus and, therefore, decision commitment, Amason (1996) noted that more than simple agreement must be achieved; active cooperation of a team is also required.

Consensus can also be measured as a shared understanding of ends and means and should be recognized as a commitment to a strategy. It can be a process of decision making as well as an outcome (Wooldridge & Floyd, 1989). According to Priem (1990), achieving consensus involves encouraging participants to express their opinions fully during group decision making. Mintzberg and colleagues (1976) determined that it was important for a group to arrive at a consensus to ensure the decision was implemented. Thus, arriving at consensus is an important element of decision outcomes.

The ultimate goal for a board or organization is to strive for high-quality, consequential decisions. Eisenhardt (1992) found that groups, rather than individuals, produced better assumptions and arrived at better recommendations in decision making; however, the group's improved performance often came at the expense of satisfaction and overall decision acceptance. Amason (1996) reported that high-quality decisions are best realized "through critical and

**RESEARCH APPROACH**

After identifying the initial gaps in the literature around decision criteria and steps, a qualitative

study was conducted that looked at successful associations and how their boards made decisions.

How decisions got made at the board level and whether the board was considering the right

issues to begin with were assessed.

Fifteen leaders—seven CEOs (paid staff) and eight incoming, current, or past chairs

(volunteers)—of seven U.S.-based nonprofit professional societies participated in this study.

These seven organizations were identified as high-performing organizations (according to the *7

Measures of Success* study conducted by ASAE and the Center for Association Leadership in

August 2006) and ranged in size from approximately $750,000 to slightly more than $100

million in revenues, with an average of $39 million.

At the start of each interview, participants were

conflict. Similar to Dooley and Fryxell (1999), the unit of analysis was a decision that a board

judged to be of strategic importance, meaning *consequential*.

The study's constructs included decision consensus, decision quality, understanding, cognitive

conflict, affective conflict, procedural justice, and decision routines and were operationalized,

wherever possible, by scales validated in prior research. An initial set of 79 items used to

modeling (SEM) using AMOS 17.0 (Byrne, 2010). EFA and CFA were used to establish the

study's factors in preparation for exploring their relationships in a structural equation model.

# FINDINGS

Four key findings emerged from the data during the qualitative study: (1) board CEOs and chairs

recognized the filtering of issues as an important first step, identifying which issues should come

before the board; (2) CEOs and chairs identified issues according to four key categories—reports

and updates, board-obligated items, environmental scanning and strategic discussion, and

seeking decisions and action items; (3) high-performing organizations' boards and staff

successfully navigated through specific decisions steps; and (4) poor performance of these steps

led to decisions that an association's members refused to approve. The poor performance

involved three causes—emotional or political factors trumped the reliance on facts during the

group decision-making process, decision makers did not have an opportunity to provide input

into the final recommendation, and the schedule driving the decision put pressure on the time

frame of the process.

**Issue Filtering**

dragging down into the details and administration and that sort of thing. I've seen a really good organization work at a very high level and then, with a few changes in leaders, all of a sudden they are on a totally, into-the-detail level, and they're missing the big picture; same smart people, just totally functioning in a different way" (Karen Nason, interview, July 2006). Without a reliable filtering mechanism to help boards focus on consequential issues, "…the realities of group decision making forever destine boards to be incompetent groups of competent people" (Carver, 1997, p. xiii).

Identifying issues is the first step in the decision-making process. Determining which issues were consequential was generally based on meeting one or more of the six criteria identified by the interviewees during the qualitative research. The six criteria were (1) Was the issue strategic or operational? (2) Did the issue fit with the organization's mission? (3) Could the implications of the issue significantly affect the profession or association financially, image-wise, or in terms of purpose? (4) Were there political consequences to the issue? (5) Was the potential for failure or risk high? and (6) Was the issue precedent setting, course setting, or course changing? These criteria were consistent with the work of Dean and Sharfman (1996), Mintzberg and colleagues (1976), and Schwenk (1995).

**Issue Allocation**

After the issues were filtered, those that had survived were assigned to one of four categories. These categories make up the agenda items for board meetings (**Figure 3**). The categories included (1) reports and updates; (2) board-obligated issues, such as financial reports, approving minutes, and confirming appointments; (3) environmental scanning, strategic discussion, and

seeking decisions; and (4) issues requiring decision. The issues that fell into category four were the core focus for the quantitative research, which will be discussed later.

Figure 3: Issue Management: Board Agenda
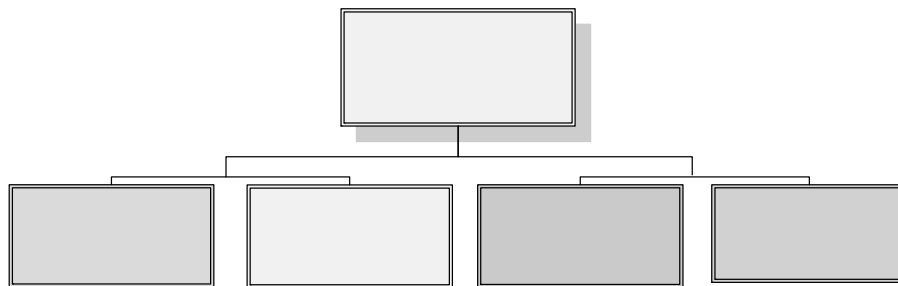


Organizing board meeting agendas around the four established categories helped the CEOs of the high-performing professional societies we studied keep their boards focused on consequential issues when allocating board discussion time.

Decision Steps

Of the seven organizations studied, all but two successfully navigated through specific decision steps by placing emphasis on issue framing, employing teams to research, generate, and debate potential alternatives, and move issues forward toward approval of a recommendation (as depicted in Figure 4).

What surfaced during the qualitative study was that high-performing boards engaged in conflict at the committee level as opposed to the board level. When the board was made aware that the committee had properly vetted all options and challenged the assumptions inherent in their information gathering process, consensus was more readily reached by the board. Boards that successfully navigated the decision steps and arrived at consensus on a consequential issue had managed the conflict within the process.

**Figure 4:** Issue Map

**Figure 5:**

Also notable was the discovery that the interaction of procedural justice and strategic attention amplifies decision quality. Increased levels of procedural justice coupled with higher levels of strategic attention amplify decision quality; conversely, a lower level of strategic attention decreases the amplification of decision quality.

Revisiting the data and moderation for CEO tenure with the organization (CEOs with fewer than 3 years of tenure—newer CEOs—versus more than 3 years of tenure—experienced CEOs) resulted in significant and surprising findings. Convincing evidence was found that for newer CEOs, having small boards had a positive effect on decision quality; conversely, for experienced CEOs a large board had a positive effect on decision quality. In addition, for newer CEOs, a close CEO/board partnership had a positive effect on decision quality, while for experienced CEOs this close relationship had a negative effect on decision quality.

Table 1:                          Moderation with CEO Tenure

|  | CEO Tenure | | |
|---|---|---|---|
|  | < 3 Years | 3+ Years |  |
| Path | Estimate | Estimate | z score for difference |
| Relationship >Decision Quality | 0.593(ns) | 0.154(ns) | 1.750* |
| Board Size >Decision Quality | 0.183* | 0.220*** | 2.883*** |

*** p<0.01; **p<0.05; *p<0.10; (ns) =

=<0003

CEO with their organization interacts in important ways with board size and CEO/board relationships to affect decision quality.

How do associations and their boards make high-quality strategic decisions? Grounded theory research conducted during the first two phases of this study indicated that high-performing associations used procedures for first selecting high-priority issues for board consideration and debate as a result of good decision processes. The qualitative findings identified *information filtering* as "a name used to describe a variety of processes involving the delivery of information to people who need it" (Belkin & Croft, 1992, p. 29). The filtering system was designed to handle unstructured information and help determine which information conformed to a format with well-defined meanings (Belkin & Croft), such as the six criteria used by CEOs (and confirmed primarily by Dean and Sharfman [1996]), to determine which issues moved forward for board consideration. These criteria were also used as the basis for determining the strategic issue analyzed during the quantitative part of the research for each of the 215 organizations studied. Interestingly, in analyzing nonresponse bias, two CEOs reported that their organizations had not recently debated a consequential issue, which leads to questioning the purpose or viability of those organizations.

The filtering mechanism identified during the qualitative study helped guide the allocation of proper board time spent on strategic issues, which was measured during the quantitative study as strategic attention. Not surprisingly, based on the interview results during the early stage of research, the quantitative research found that decision quality was higher among boards spending adequate time on strategic issues Using the filter to narrow down the issues boards s7iul

consider encourages boards to spend more time and attention on strategic issues. Spending more time on strategic issues was found to positively affect decision quality.

Which group dynamics enable some boards to endure more tension than others? Findings from the qualitative phase suggest that high-performing boards handle impasses skillfully and are able to recognize when exploration and debate have become too conflictual to lead to consensus. At that point, they did not drop the issue; instead, they returned the issue to committee for further discussion or hired a consultant to support th

Distinguishing between board and committee conflict was not a part of the quantitative work. However, the differentiation was repeatedly noted by CEOs and chairs; the importance of "airing out the debate" did not negate the importance of reaching near or total unanimity among board members for the final decision. The organizations studied in the qualitative research were able to reap the rewards of dialectical inquiry at the committee level, while achieving group consensus at the board level, which is consistent with what Bradshaw, Murray, and Wolpin (1992) found while conducting a similar study.

The quantitative phase of the research produced a model that indicated strong promise for using decision-making constructs as dependent variables in studies of nonprofit governance, particularly in the association community. Because the results were consistent with the view that boards are, first and foremost, charged with being decision-making bodies, researchers can and should use decision outcomes as measures of the effectiveness of nonprofit boards. The constructs of decision quality and decision commitment have proven valuable in studying strategic decision making in the for-profit sector. Their validation in this study confirms their utility for nonprofit governance contexts. Decision quality and decision commitment can also be used in research, not only as outcomes from decision-making processes, such as procedural justice and strategic attention, but also as more general measures of boards' effectiveness.

Group decision processes combine decision routines and procedural justice, referred to herein as fairness, and were generally confirmed in both studies by the decision steps through which these organizations navigated. The findings indicated a mix of linear and nonlinear elements in the decision-making process. The application of the garbage can theory was most prevalent in teams (task forces and committees) because they are more ad hoc and improvisational (Daft & Weick,

1984). The mix of linear and nonlinear elements permitted the filtering and framing of issues to be emergent and responsive to political realities and, at the same time, rational, allowing for a reasonable discussion of issues to take place and helping to move selected issues ahead logically in an orderly and focused fashion.

In the qualitative study, organizations that successfully approved the board's or committee's recommendations felt no pressure to seek approval at a specific meeting and were willing, if necessary, to delay consideration of a recommendation until the next meeting to achieve approval. After re-examining the items that survived EFA and CFA during the quantitative study, *decision routines* was renamed *strategic attention* as the remaining items, incorporating routines and steps identified by Choo (1996) and Cohen (1996) meant to help focus boards' attention on strategic-level issues while navigating decision routines.

The new construct of strategic attention adds greatly to the decision quality advancement model because it positively affects decision quality and, when combined with procedural justice, the interaction amplifies both decision consensus and decision quality. Strategic attention can be useful for CEOs who are increasingly looking to adapt tools to help their boards focus more on strategic issues. This is the first quantitative study in the association community that substantiates the benefit of boards spending time on strategic issues. Armed with this data, CEOs should encourage their boards to allocate more of their precious time to dealing with consequential issues.

For CEOs of boards operating in the high strategic attention mode, focusing on procedural justice will significantly amplify effects on decision outcomes. It is important for boards

pursuing high-quality, consequential decisions to be aware of the compounding effect of high strategic attention coupled with high procedural justice.

CEOs and boards should focus on increasing the use of procedural justice in their board deliberations to positively affect decision consensus and decision quality and reduce affective conflict. Shoring up fair processes and respectful discussions helps boards achieve improved decision quality. The positive effect of affective conflict on decision consensus and decision quality, however, diverges from the literature and what was expected and requires further study. In addition, conflict at the committee level rath

counter to those found in other contexts, requiring the reassessment of their application to the association decision-making setting.

In *Race for Relevance* (2011), Coerver and Byers advocate for a five-person governing board (not including the CEO), indicating that an association can be adequately governed by a small board. Our analysis indicated that decision quality improved when newer CEOs worked with smaller boards; however, decision quality improved when experienced CEOs worked with larger boards. Perhaps it is easier to challenge and guide a newer CEO in a small-group setting while larger boards are better equipped to challenge a more experienced CEO and improve decision quality. Advocating for a closer relationship between a board and a newer CEO should improve decision quality. In addition, having a newer CEO work with an executive committee or smaller-sized board should result in improved decision quality. If the two variables (board size and CEO/board relationship) are considered together in the case of a more seasoned CEO, a larger and more distant relationship should allow the board to challenge the experienced CEO, avoiding "autopilot" decision making and improving decision quality.

Although the construct of understanding was not a main focus of this research, the results indicated that boards and CEOs should aim to increase members' understanding of key issues, and that doing so can be expected to produce significant improvements in decision consensus and decision quality. Understanding, as a construct, positively impacts decision outcomes, and increasing understanding (namely, increasing the board members' understanding of the issues) should be an intermediate goal that CEOs should strive for. Both cognitive and affective conflict played significant roles in members' understanding and decision outcomes. The concepts of understanding and procedural justice help us explain why high-performing boards succeeded

when using information-gathering procedures, such as sending the issue back to committee for further review.

## CONCLUSIONS

Does decision theory help us understand how effective boards function? The results of this body of research are promising and should help illuminate the process of pursuing consequential issues. Key elements of the decision-making process were confirmed in the association setting. Although the decision steps all seem logical and rational, skillful, deliberate movement through the decision processes and routines are paramount for associations' success. Not only do associations have to navigate the decision steps, but they have to do it skillfully and with attention to conflict and understanding to have positive outcomes for decision quality. Boards and CEOs need to have freedom to use alternative sets of procedures that they can invoke, depending on how the issue is progressing through the process. This research indicates that CEOs can judge how the issue is progressing by

intimacy of the board/CEO partnership should be determined based on the length of the CEO's

A more diversified sample may have produced different results. The sample size for the

quantitative study comprised approximately 8% of associations having CEO members in ASAE

process is nonlinear, even recursive, when, how much, and how often is conflict interjected into the process?

This study has produced strong proof that previously validated constructs from decision-making literature are relevant to association governance. Hopefully, other researchers will adopt these constructs in their own studies and leaders in nonprofit governance settings will devote more attention to their decision-making processes and outcomes.

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