Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.
Decision-Making in a Corporate Boardroom: Inside the Black Box

A thesis presented in partial fulfilment of the requirements for the degree of

Doctorate in Philosophy

in

Management

at Massey University, Palmerston North

New Zealand.

Karen Stacie Martyn

2006
Abstract

The lack of empirical studies on board process represents a serious knowledge gap in the governance literature. To date there has been little research on how boards actually make decisions, the factors that contribute to effective board decision-making, and what tools and techniques may be used to improve board decision-making. Effective board processes are identified as leading to effective board outputs, and subsequently more effective organisational outcomes. This study explored the internal factors under the control of the board (or those selecting board members) that contribute to effective board decision-making processes. The perspective of small group decision-making research was applied to explore board decision-making processes. The three aims of the study were to investigate those factors that directors thought contributed to their board's successful and unsuccessful decision-making, to observe how a board actually makes decisions; and to determine whether training and usage of a normative decision-making methodology (including the use of a reminder role) might improve that board's decision-making process.

Data collection included direct, in situ, observation of a board; semi-structured interviews with all board directors, the CEO and four executive team members; three surveys; and emotional intelligence testing (MSCEIT). The board was found to use normative decision-making procedures. These decision making procedures appeared to contribute to better decision-making processes and consequently better decision-making outputs. The task intent of acting in the best interest of the company and the relationship intent of trust were found to permeate the board inputs and processes examined during this research. Other input and process variables observed to influence board decision-making were classified as being task (structure, process, communication) and/or relational (relationships, director attributes and emotions) factors. Task factors included rational decision-making procedures; clarity of goals and roles; use of external advisors as critical evaluators; quantity and quality of information; consensus decision-making; post-decision evaluation and learning. Relational factors included homogeneity of directors through careful selection; socialising with
management; board norms of a safe environment, supporting the doubtful director and the obligation to share contrary views; adequate business knowledge; emotional intelligence; and commitment. The results of emotional intelligence testing revealed levels sufficient to assist in positive board dynamics. The study results support the application of small group decision making research to aid in board process research, and further empirical exploration of board inputs using psychometric measures.
Acknowledgements

To be sure of hitting the target, shoot first, then call whatever you hit the target.
Ashley Brilliant

My first and most sincere acknowledgement, given with gratitude and admiration, is for the case study board of directors who so willingly agreed for the research to take place in their boardroom. My presence in the boardroom, individual interviews, surveys, training intervention, tests and follow-up questions were undertaken both cheerfully and stoically. The board graciously accepted my intrusion into their lives and openly shared their experiences -- thank you all very much. As we set out to do, we have created a ‘first’ in governance research.

I must mention all the good folks in the Distance and Interloan sections of the Massey Library- your assistance was invaluable and consistently outstanding. Without the resources of the library, especially its professional staff, I could not contemplate carrying out this research. Thank you all so much! Massey University must be acknowledged for the financial support given in the last three years, without which I could not have sustained the additional unplanned time it took to complete this research.

I must express my appreciation to Wray Wilson, who introduced me to the chair of the case study board. Thank you, Wray for this and all your support through the eight years of our association. Grant Dunn, corporate governance barrister and solicitor, thank you for your opinion on how the New Zealand legislation defines “the board”. Karl Pajo and Alison Brown - thank you for your efforts on my behalf. They were sincerely appreciated.

I must acknowledge the assistance of my supervisors, Drs. Ralph Stablein and James Lockhart, for their valuable guidance.
Thank you, Julia Quince. You have been my DBA cohort, personal cheerleader, wine and chocolate aficionado, mutual dog lover, and Camp Sister. Thank you for your support and encouragement -- you filled a big gap in my journey.

Finally, I want to thank my family who can now breathe a sigh of relief. Thank you Rob, for giving me the space and time to achieve a lifelong goal. Thank you too, Sean and Stacy, for your love and understanding when I could not play throughout the three five years this doctorate took to complete.
Table of Contents

Abstract.............................................................................................................................. ii
Acknowledgements......................................................................................................... iv
Table of Contents............................................................................................................ vi
Table of Tables............................................................................................................... x
Table of Figures ........................................................................................................... x

CHAPTER 1: HOW DO BOARDS MAKE DECISIONS? ..................................................... 1
1.1 Organisation of the Thesis ...................................................................................... 6

CHAPTER 2: GOVERNANCE PARADIGMS ............................................................... 8
2.1 Chapter Introduction .............................................................................................. 8
2.2 Evolution of Corporate Governance and the Role of the Board ...................... 9
2.3 Agency Theory: Dominant Governance Paradigm ........................................... 11
2.4 Agency Research Focus on Structure: Director Independence, Leadership Duality and Board Size ................................................................. 17
2.5 Stewardship Theory .......................................................................................... 20
2.6 Paradox in Governance Research ................................................................. 24
2.7 Board Process Research .................................................................................. 26
2.8 The Paradoxical Nature of Interdependent Task and Relationship Factors .... 28
2.9 An Approach for Studying In Situ Board Decision-Making Process .............. 33
2.10 Chapter Summary .......................................................................................... 35

CHAPTER 3: SMALL GROUP RESEARCH: FACTORS INFLUENCING GROUP
DECISION-MAKING ............................................................................................ 36
3.1 Chapter Introduction ......................................................................................... 36
3.2 Functional Theory .......................................................................................... 37
3.3 Inputs + Process = Outputs Model .................................................................... 43
3.4 Task Input Factors ......................................................................................... 46
3.4.1 Task Type Criteria ..................................................................................... 46
3.5 Task Input Factors that Shape Relationships: Meeting Rules and Decision Rules 54
3.5.1 Meeting Rules ......................................................................................... 54
3.5.2 Decision Rules ................................................................................................ 56
3.6 Relationship Input Factors: Board and Director Attributes ............................... 58
  3.6.1 Board Norms .................................................................................................. 59
  3.6.2 Relationships ................................................................................................. 60
  3.6.3 Individual Attributes ....................................................................................... 62
3.7 Constraints: Individual and Relationship Factors ................................................. 77
3.8 Summary of Task and Relationship Input Factors ................................................. 79
3.9 Process Factors ..................................................................................................... 81
  3.9.1 Relational Process Variables ........................................................................... 81
  3.9.2 Task-Related Process Variables ..................................................................... 89
  3.9.3 Vigilance Theory ............................................................................................ 91
  3.9.4 Post Decision Evaluation and Learning ........................................................... 92
3.10 Prescriptive vs. Descriptive Process .................................................................... 95
3.11 Resistance to Using Decision-Making Procedures .............................................. 99
  3.11.1 The Reminder .............................................................................................. 100
  3.11.2 Training in Procedures ................................................................................ 102
3.12 Problems with Research .................................................................................... 103
3.13 Chapter Summary .............................................................................................. 105

CHAPTER 4: RESEARCH DESIGN .............................................................................107
4.1 Chapter Introduction ............................................................................................ 107
4.2 Research Purpose ............................................................................................... 108
4.3 Research Objectives ............................................................................................ 108
4.4 Naturalistic Research ........................................................................................... 110
4.5 The Sample .......................................................................................................... 111
4.6 Units of Analysis .................................................................................................. 113
4.7 Multiple Data Collection Methods: Qualitative and Quantitative ....................... 114
4.8 Case Study Method ............................................................................................. 115
4.9 Triangulation ........................................................................................................ 117
4.10 Data Collection ................................................................................................... 118
  4.10.1 Phase 1: Initial Interviews, Direct Observation and Archival Data ............... 118
4.11 Phase 2: Training Intervention ............................................................................ 122
Table of Tables

Table 2.1: A Comparison of the Central Attributes of Agency Theory and Stewardship Theory ........................................................................................................................................23
Table 3.1: Comparison of Dewey’s and Hirokawa’s Models .........................................................39
Table 3.2: Complexity of Board’s Legal Task Requirements ......................................................... 51
Table 3.3: Task and Relationship Input Factors ............................................................................79
Table 3.4: The Potential Gap Between Who is on the Board and What Boards Need ......80
Table 3.5: Summary of Decision-Making Input and Process Factors ........................................94
Table 4.1: Objectives of the Study .................................................................................................109
Table 4.2: Director & CEO Demographics ..................................................................................130
Table 4.3: Director Board Service and Industry Experience .......................................................131
Table 4.4: Data Collection Phases and Activities .........................................................................132
Table 4.5: Comparison of Hirokawa et al.’s and Case Study Company Thematic Categories ........................................................................................................................................137
Table 5.1: Methods Used to Gather Data for Research Objectives ...........................................143
Table 5.2: Comparison of Hirokawa et al.’s (2000) and Case Study Company Thematic Categories ........................................................................................................................................190
Table 5.3: Comparison of Factors Contributing to Failed and Successful Decision-Making Stories ........................................................................................................................................206
Table 5.4: Survey of Directors’ Success Factor Contribution .......................................................207
Table 5.5: Survey of Executives’ Success Factor Contribution .....................................................208
Table 5.6: Survey of Directors’ Failure Factor Contribution ........................................................209
Table 5.7: Survey of Executives’ Failure Factor Contribution .....................................................209
Table 5.8: Post Training Survey Data Results ................................................................................220
Table 5.9: Post-Trial Survey of Directors (n = 6) .........................................................................223
Table 5.10: MSCEIT Results for the Board ..................................................................................226
Table 5.11: Comparison of Factors Contributing to Failed and Successful Decision-Making Stories ........................................................................................................................................235

Table of Figures

Figure 6.1: The Yin and Yang Model of Board Process ...............................................................244