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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.

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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.

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CHAPTER 1: HOW DO BOARDS MAKE DECISIONS?

Scrutiny of corporations and specifically corporate governance issues in the print media has been more intense in the last few years than it has been in over a decade (Corporate Library, 2002). The rise in global corporate power, both economic and political, is evident in the key findings from a study conducted by the Institute for Policy Studies (2000):

- Of the 100 largest economies in the world, 51 are corporations; only 49 are countries (based on a comparison of corporate sales and country GDPs).
- The Top 200 corporations' sales are growing at a faster rate than overall global economic activity. Between 1983 and 1999, their combined sales grew from the equivalent of 25.0 percent to 27.5 percent of World GDP (Anderson & Cavanaugh, 2000).

As James Wolfensohn, president of the World Bank said, "The governance of the corporation is now as important in the world economy as the governance of countries" (Keong, 2002, as cited in Kimber, 2005, p. 181).

The power and influence of corporations exceeds that of governments in many countries (Krumsiek, 2004). Large-scale corporate deceit, fraud, theft (Enron, Tyco, WorldCom), environmental damage (Exxon's Valdez disaster) and loss of health and life (Union Carbide, Bhopal) have raised what may be valid fears of corporations' ability to inflict large-scale economic, environmental and social damage. In "corporate failures" poor corporate governance practices (whatever this may mean) have been blamed for not preventing these disasters.

...relatively little appears to be known about why or how several of these failures occurred, including how and why key decisions were made, or not made, and the manner in which boards acted and why they acted the way they did....But given that a key task of a board of directors is the independent oversight of management and corporate stewardship, one may conclude that at least *some* of these corporate failures may have been caused by the inability of boards to operate effectively, *i.e.*, a failure of board process. (Leblanc & Gillies, 2003, p. 3)

Good governance is viewed as a means to improve a country's economic development through the attraction of foreign investment (Ad Hoc Task Force on Corporate Governance, 1999; Commonwealth Association for Corporate Governance, 2006). Investors avoid countries that do not have robust securities and governance systems. A reputation for poor governance makes individual companies an unattractive investment. Corporate governance has the potential to do good or harm at local and international levels.

Corporate governance is a key contemporary business issue and an increasingly familiar term in everyday business vocabulary. The term has no universally agreed definition and each definition reflects its perspective (Monks & Minow, 1995). Most definitions have an investor bias as they are based on the research in legal and economic perspectives. In the legal-economic perspective, corporate governance refers to the combined legal and regulatory system that establishes the structure and role of the corporation's board and defines the rights and obligations of directors, management shareholders and other stakeholders (Shleifer & Vishny, 1997). In the management literature, *corporate governance* has traditionally focused on the apparent 'conflicts' directors may face, *i.e.*, "We define governance as the determination of the broad uses to which organisational resources will be deployed in the resolution of conflicts among the myriad participants in organisations" (Daily, Dalton, & Cannella, 2003, p. 371).

Like the management discipline, moral philosophers have focused on conflicts to define what corporate governance is about:

...ways of ensuring that corporate actions, assets and agents are directed to achieving the corporate objectives established by the corporation's shareholders. (Sternberg, as cited in Gregg, 2001, p. 14)

Note that this definition focuses on the parties involved - principals, agents, and the outcomes: "One group of people (corporate directors) is accountable to a second group (the corporate owners) for the achievement of a designated outcome (the corporate objective)" (Gregg, 2001, p.15).

Turnbull (1997) pointed out that the term *corporate governance* has been overused in the literature to mean too many concepts. "Greater clarity and focus would be achieved by using terms such as 'board management', 'board conduct', 'corporate management', 'corporate organization', or 'corporate conduct', rather than the less specific, more ambiguous and ambitious phrase 'corporate governance'" (p. 3). Most of these definitions focus on what can be seen from *outside* the board of directors, an external perspective. If one were to look *inside* the board, corporate governance is about organisational culture and individual behaviour (Kimber, Lipton, & O'Neill, 2005) and "the exercise of power over corporate entities" (Tricker, 2000, p. xiii). With this internal perspective, corporate governance focuses on the performance of the board of directors: the effectiveness of the board's directing, monitoring and controlling the activities of the corporation and the means, outputs and outcomes of decision-making within the enterprise.

Given the economic and political power that corporations wield, it is paramount to discover what contributes to effective internal governance. The starting point for this research must be *how boards actually work*: how board and director attributes, interaction, decision-making processes and the resulting decision-making actually takes place and which of these factors lead to effective or ineffective board

performance. The majority of research to date provides little insight into the many types and qualities of the variables, input and process factors, that contribute to board performance and have the potential to answer the question: what makes some boards effective decision makers and others not?

In all the research, there is no analysis of how boards perform as boards - how they make decisions - and of the impact of the behavioural characteristics of various directors on the **decision-making** process. In short, in all of the work that has been done, any explanation of how boards make decisions is missing, and yet this may well be the *most important factor in determining the effectiveness of the governance of an enterprise* [emphasis in original]. (Leblanc et al., 2003, p. 8)

The purpose of this research is to explore the seldom-studied board of directors in situ: to reveal the factors that the board of directors' view as contributing to successful or unsuccessful board decision-making, to scrutinise how decision-making by the board of directors actually takes place, and to investigate whether boards' decision-making can be improved by use of normative decision-making procedures.

This research is built upon several premises. First, the work of the board is cognitive. This will be discussed further in the next chapter. Second, the work or outputs of the board are decisions. Again, this will be discussed in the next chapter. Third, if the outputs of the board are its decisions, then good (effective or successful) decision-making is the board's contribution to good governance. Fourth, a good decision-making process is more likely to result in a good decision (output) *ceteris paribus*. Therefore, boards who use a good decision-making process are more likely to make better decisions than those boards who do not use good decision-making process and practices.

This research demonstrates a method for studying the board of directors *in situ* to explore directors' perceptions of what contributes to successful and unsuccessful

decision-making, compare reported and observed decision-making behaviours and investigate specific director and board level attributes using qualitative and quantitative methods. The driving purpose behind this research on boards of directors is to explore board process and to identify the factors that may contribute to effective board decision-making.

A multidisciplinary approach was used drawing heavily upon management, psychology, and communication disciplines to examine and explain the many factors that may mediate effective board decision-making. This is extending the already acknowledged multi-disciplinary perspectives already used:

The field [of corporate governance] draws from law, economics, ethics, politics, management, finance, . . . understanding the issues raised by corporate governance requires familiarity with the concepts, assumptions and vocabulary of each of these fields, plus a willingness to synthesize and even transcend them. (Monks & Minow, 1995, p. xv)

The aim of this study is to explore the internal factors that may contribute to board process, specifically board decision-making, and which are under the control of the board (or those selecting board members). The study focuses on factors that board members can be selected for and procedures and processes that can be adopted by the board. More specifically, the study investigates:

- Which factors directors *think* contributes to their board's successful and unsuccessful decision-making
- How the board *actually* make decisions
- Whether use of a normative decision-making methodology can contribute to the board's decision-making process.

External factors that may influence board decision-making, such as shareholder and stakeholder influences, regulatory and market mechanisms, etc. are excluded from this study.

Research questions and the research design are informed by review of the literature that was published on or before December 2005 when the data collection concluded.

1.1 Organisation of the Thesis

This chapter introduced the need for research into board process, specifically what boards' think they do that contributes to successful decision-making, how they actually make decisions, and whether normative decision-making procedures can contribute to better board process.

Chapter 2 reviews the development of views on corporate governance, the dominant governance paradigm, agency theory, the role of the board, types of directors and other research attempts to understand what contributes to effective or ineffective governance. Chapter 3 reviews the small group research literature, providing a lens through which board decision-making may be examined. Prominent theoretical insights on group decision-making are discussed as they relate to the corporate board.

The research design, an intensive case study, used to explore decision-making by a board of directors is described in Chapter 4. Data gathering included confidential interviews, surveys, a demographic questionnaire, direct observation, a training intervention, and a psychometric test. These methods are described in detail along with the reasons for their use. Key concept definitions used in this thesis are provided for clarification in Appendix K, Glossary of Key Definitions.

The results of the study are presented in Chapter 5. Data gathered from the board, directors and executive management team members through interviews, surveys, direct observation and a psychometric test are analysed for the factors that may contribute to successful and unsuccessful board decision-making.

Chapter 6 discusses the key findings and conclusions of the study: what directors thought contributed to successful board decision-making, how the board actually worked in the observed board decision-making, and the contribution of structured decision-making procedures. The study's contributions to the governance literature, case study limitations and recommendations for future research are also discussed.

Motivation for the study

For five years prior to beginning this research, I had been teaching prospective and experienced directors of public and commercial enterprises in New Zealand, Malaysia, Kenya, India, Fiji, Tonga, Vanuatu, Tuvalu, and Samoa under the auspices of the Commonwealth Association for Corporate Governance and the Institute of Directors (NZ). In my consulting practice, I advised public and private boards in New Zealand. Teaching directors the mechanics of governance (legislative responsibilities, crafting the board, tools for monitoring strategy, etc.) and developing infrastructure for boards (board charters, committee terms of reference, delegations of authority, etc.) were relatively straightforward and satisfying in the recipients' understanding and successful implementation. Less defined and yet equally in demand from boards and directors was practical guidance on how to improve the board's decision-making process. What could boards do to improve the way the board functioned? While there was ample anecdotal and individual-experience based information, the lack of empirically-informed recommendations motivated me to research factors that contributed to successful board decision-making. I was especially interested in factors that were under the control of the board, or those who select board members. My motivation was to discover practical knowledge to guide and benefit board decision-making.

CHAPTER 2: GOVERNANCE PARADIGMS

"The field of corporate governance is at a crossroads. Our knowledge of what we know about the efficacy of corporate governance mechanisms is rivalled by what we do not know" (Daily, Dalton, & Cannella, 2003, p. 371).

2.1 Chapter Introduction

In Chapter 1 the need for understanding the factors that contribute to effective decision-making by boards of directors was introduced. This chapter provides background information required to contextualise the extent and significance of decision-making by corporate boards of directors.

The first section provides a brief historical description of the development of the role of corporate boards. Agency theory, the dominant paradigm for research on corporate governance, stewardship theory, and other agency-theory alternatives, are reviewed for their insights into board process. The review of board research highlights the lack of studies of in situ boards necessary for revealing what boards actually do. The paradoxical nature of interdependent task and relationship factors is introduced as a recurring theme in board process, for example, the seemingly incompatible demands on the board to both monitor and support the CEO. Lastly, other disciplines may offer insights useful for exploring board dynamics and decision-making process.

2.2 Evolution of Corporate Governance and the Role of the Board

Prior to the mid-nineteenth century, investors in business enterprises had four options:

(a) invest in a Crown or state corporation, (b) be a sole trader, (c) be in a partnership, or (d) invest in an incorporated body (Tricker, 2000). Only the Crown or state-created corporations protected investors from creditors of the business in the event it failed. By the late nineteenth century, public companies offered joint stock, limited liability investment opportunities with the goal of raising capital for the company while limiting investors' risks to the extent of their equity investment. Early in the twentieth century, businesspeople and families had readily adopted this new corporate legal structure that retained power with ownership but limited liability. The entity was given the legal status of an artificial person but the legal rights of a real person; corporations could own property, sue and be sued, and enter into contracts (Tricker, 2000).

The growth of 'stock exchanges' in the USA and the UK enabled the general public to buy shares in companies they would likely never have any other dealings with. Ownership of company shares became widespread among the American public. The stock market crash of 1929 sent shockwaves through investors and raised suspicions about the quality of governance of corporations. The investment in corporate stock was relatively widespread in America and the social implications of corporate failure made it dramatically clear how corporate performance was intertwined with economic prosperity.

In 1932, co-authors Adolf Berle and Gardiner Means published their seminal book *The Modern Corporation and Private Property* (1932). Berle, a lawyer by education, provided a legal point of view and Means, an economist, provided an economic view. Berle and Means described the corporate structure as having an inherent problem of divergence of interests due to the separation of ownership of the assets by shareholders and the control of the assets by employed managers.

Their focus was on the separation of ownership from control and the subsequent “theoretical implications for the question of corporate governance” (Nodoushani, 1996, p. 11).

To Berle and Means, the governance structure comprised three elements: ownership, which resided in the shareholders; control, which was delegated to hired management, and the board, which was charged with controlling management in the interest of the shareholders. Berle and Means emphasized that owners had no effective control over the power of management who, if left unchecked, might use shareholders’ assets for their own (management’s) gain and interest. They pointed out that shareholders were widely dispersed, individually holding a small percentage of the total shares, and were unable to act as a collective: uninformed about management’s activities and therefore unable to exert any useful control over their corporation’s management. Shareholders therefore relied on the board of directors as their representatives to monitor and control management. Berle and Means made the corporate structure the ‘problem’ that had to be overcome. Because ownership of assets was separated from control, they emphasized the opportunity for managers to put their self-interest above the owner’s interests.

They asserted that managers “consist of a board of directors and the senior officers of the corporation” (Berle & Means, p.196), were trustees of the shareholders and that their sole purpose was to make profits for shareholders – this was their primary duty. They emphasized the fiduciary duties of the board whose role was to protect the financial interests of the shareholders. Fiduciary duties are a philosophical and legal concept where one party has greater power (usually recognised as superior knowledge of a highly specialised nature) and is obligated to act in the best interests of the client (the weaker party) even above the fiduciary’s self-interest (Bayles, 1989). Fiduciary duties usually involve protecting the client from harm (e.g., loss of health, liberty, wealth, etc.). Fiduciary obligations are generally characterised by preventative measures as opposed to

proactive ones. In the case of company directors, the fiduciary relationship is between the directors and the company. It follows that under most legislation, the primary fiduciary duty of directors is to do what is in the best interest of the company (Monks & Minow, 1995).

Berle and Means (2002) asserted that those who controlled the assets were in a position to enhance their personal wealth at the expense of shareholders, the ones who owned the assets and should theoretically reap the rewards. Subsequently, this became a maxim upon which future governance perspectives developed. Their identification of the separation of ownership and control 'problem' endures as one of the key assumptions in the dominant governance paradigm subsequently developed and called Agency Theory. This paradigm will be discussed in more detail in the next section.

2.3 Agency Theory: Dominant Governance Paradigm

Building on the work of Ronald Coase's transaction costs theory (1937) and Berle and Means' (1932) view of the control problem of shareholders, economists Jensen and Meckling (1976) later reinforced and extended the notion that the focus and purpose of the board was to manage "problems associated with ...agency relationships" (p. 308). They defined an agency relationship as:

A contract under which one or more persons (the principal[s]) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. (Jensen & Meckling, 1976, p. 308)

Agency theory views relationships as a series of implicit and explicit contracts with associated rights (Jensen & Meckling, 1976). The managers of the firm are the agents of the shareholders, who are the principals in this relationship. The firm

also has contracts with employees (agents), suppliers (agents), and directors (fiduciaries and agents).

Jensen and Meckling (1976) applied the neoclassical economic view wherein the basic unit of analysis is the individual who is chiefly preoccupied with "maximizing" their utility: generally some trade-off between work and leisure. In this economic view of human nature, maximising one's own self-interests motivates human beings and thus motivates principals (shareholders) and agents (directors and managers). In the case of the principal, the interest was maximising the principle's financial investment. In the case of the agent, the primary interest was maximising the agent's personal wealth, which might be achieved according to agency theory at the expense of the principal's interests.

This divergence of principal-agent interests premise builds on the Berle and Means (1932) identified problem of the separation of asset ownership from control. Jensen and Meckling not only accepted Berle and Means' 'divergence of interest' as the primary problem, but they reinforced the threat of the problem by viewing human nature as being economically self-motivated. The 'agency problem' thus becomes the principal(s)' need to limit the agents' ability to self-serve. To make agency theory work within the corporate structure, Jensen and Meckling (1976) focused on the executive (management) as the 'agents' of the shareholders and positioned the board of directors, not as agents of the shareholders as had Berle and Means (1932) but as the monitors of management's actions. Under agency theory, the primary purpose of the board was to monitor the agent's (management) actions, establish incentives and/or "pay the agent to expend resources (bonding costs) to guarantee that he will not take certain actions which would harm the principal or to ensure that the principal will be compensated if he does take such actions" (Jensen & Meckling, 1976, p. 308).

Jenson and Meckling (1976) asserted that regardless of how effective the monitoring and bonding of the agent, there "will be divergence between the

agent's decisions⁸ and those decisions which would maximise the welfare of the principal" (p. 308). These activities have an economic value they termed "agency costs...the sum of: (a) the monitoring expenditures by the principal,⁹ (b) the bonding expenditures by the agent, (c) the residual loss (Jensen & Meckling, 1976, p. 308). Agency theory defined the primary governance issue as a search for mechanisms to minimise the agent's opportunities to self-serve, ensuring the agent's protection and preservation of the principals' assets. Agency theorists attribute three motivations to managerial opportunism: job security, financial gain, and increased status (Lubatkin, Lane, Collin, & Very, 2005).

Jensen and Meckling's economic model of human behaviour and subsequent purpose of the board as management monitors has been widely accepted. Agency theory remains the dominant paradigm and conventional wisdom for discussing governance issues.

In the agency theory-based literature, the role of the board focuses on activities to ensure that the organization complies with all laws that could have a negative impact on the business, keeps risks at an acceptable level to the shareholders and applies the brakes to management (the agents) whenever it tries to act in a manner that does not maximise the benefits to shareholders. Agency theory assumes that the board identifies first and foremost with shareholder interests (Pettigrew & McNulty, 1995). Given that those who have previously occupied the CEO role are often seen as suitable directors, this assumption without individually testing its validity may be an optimistic one for agency theory.

The strength of the appeal of agency theory is such that even its originators have not been able to diminish its credibility despite their attempts to do so. In 1994, Jensen and Meckling published their revised theory, *The Nature of Man*. They evaluated five models of human motivation including their own economically motivated model used as the basis for agency theory. Jensen and Meckling asserted that only their new theory, *The Resourceful, Evaluative Maximizing*

Model (REMM) was adequate to explain human behaviour at the individual and organisational level. Their REMM theory was more complex than the simplistic economically motivated proposition and advanced four postulates:

1. Every individual cares; he or she is an evaluator.
2. Each individual's wants are limited.
3. Each individual is a maximiser.
4. The individual is resourceful.

They rejected their economic model of people as money-maximisers on the basis that "people do not behave this way" (Jensen & Meckling, 1994, p. 22). Their revised theory of human motivation drew on research from psychology and sociology disciplines. It was consequently more robust and scholastically supported (McGregor, 1985; Kohlberg, 1984), an aim the authors made explicit in their explanation for their research. Separately, Jensen responded to criticisms of agency theory (Jensen, 1994) by explaining that he and Meckling were simply the first to "open the black box called the firm" (p. 48) and to identify the conflicts of interest, which would prevent the organization from maximising its opportunities. They argued that

... [The] central proposition is not that people are self-interested, or that conflicts exist. The central proposition of agency theory is that rational self-interested people always have incentives to reduce or control conflicts of interest so as to reduce the losses these conflicts engender" (Jensen, 1994, p. 49)

Jensen and Meckling rejected their own agency theory; however, it appears that few researchers have taken account of this rejection. The majority of research published on governance in management, law and finance disciplines remains based on agency theory assumptions. For example, the finance view of governance continues to focus on the role of the board as finding mechanisms to protect investors from the conflicts of interest emphasised in agency theory. "Corporate governance deals with the ways in which suppliers of finance to

corporations assure themselves of getting a return on their investment” (Shleifer & Vishny, 1997, p. 737).

In the management discipline, agency theory research remains focused on discovering which combinations of governance mechanisms best result in preventing the agents' self-serving behaviour. While initially these studies focused on the CEO-as-agent problem, more recently they have extended the agency problem to include the board itself as an agent (as Berle and Means, 1932, viewed the board) and thus extend the shareholders' need for controls and limits to both the CEO and the board.

Agency theory asserts that shareholders can be passive in corporate governance because they have an efficient mechanism, the board of directors, protecting their interests by monitoring management and if the board fails, the market for corporate control is a secondary protection mechanism (Fama & Jensen, 1983). Thus, agency theory is inextricably linked with an unrestricted takeover market; however, defensive actions of corporate boards and management, such as poison pills and greenmail, may limit the market from exercising the controls it relies upon.

Structural mechanisms purported to control agents' behaviours have included the mix of inside and outside (independent) directors (Byrne, 1997; Coles, McWilliams & Sen, 2001; Daily & Dalton, 1993; Harris, 2001; Heracleous, 2001; Langevoort, 2001), the degree of ownership of company stock (Coles, McWilliams & Sen, 2001; Daily, Dalton, & Cannella, 2003; Frankforter, 2000; John & Senbet, 1998), and board compensation and incentive schemes as means of aligning agents' interests with shareholders' interests (Byrne, 1997; Lee & Phan, 2000). For most of these investigated variables, there are contradictory and/or mixed findings that have done little overall to support these as approaches to determining what makes effective governance (Dalton, Daily, Ellstrand, & Johnson, 1998; Huse, 2000).

During the 1980s, bankruptcies of prominent public corporations (where many shareholders lost their life savings) raised concerns about standards of corporate governance in both the UK and the USA. In response, numerous governance committees were formed in many countries starting with the Treadway Report (1987) in the USA, followed by the more influential Cadbury Report (1992) from the UK, "Vienot Report (1995) from France, the King Report (1995) from South Africa, the Toronto Stock Exchange recommendations on Canadian Board practices (1995), the Peter's Report from the Netherlands (1997), and a report on corporate governance in Hong Kong from the Hong Kong Society of Accountants (1996)" (Tricker, 2000, p. xix). Like the Treadway Report, the theme in these reports was preventing management from abusing its position and power. The reports called for "greater conformance and compliance at board level" (Tricker, 2000, p. xix) advocating structural mechanisms (such as audit committees, independent directors and separation of Chair and CEO roles) to stem management's ability to cheat shareholders. The agency view paradigm may have restricted the search for solutions for improving corporate governance to studying the exterior shape and dimensions of the board, much like studying the exterior of a box that holds a television. The inner components and processes of the television, not the dimensions or characteristics of the box, are what determine its performance. To understand what contributes to board performance, the inner components and processes, those things that are inside the box, must be examined and their contributions understood. As someone on the original Toronto Stock Exchange Committee (1984) remarked: "The TSE guidelines are like describing hockey by describing the rink. You can fit all of the guidelines but have a terrible board" (Leblanc & Gillies, 2003, p. 7).

Government committees have recommended limiting executive power and enhancing non-executive or independent directors' influence (Cadbury, 1992), separating the roles of chair and CEO (Financial Reporting Council, 2003) and limiting the size of the board (Bangladesh Enterprise Institute, 2004). Each of these will be discussed in turn.

2.4 Agency Research Focus on Structure: Director Independence, Leadership Duality and Board Size

Directors are commonly classified by their degree of independence as independent, affiliated or executive. Recommendations for limiting "non-independent" or "executive" directors and separating the roles of chair (director) and CEO (executive) are based on the perception of the dual roles executive directors have under agency theory; executive directors are said to have an in-built conflict between being managers who are in the position to self-serve and directors who are charged with monitoring management. Because they have the potential to make decisions that could directly benefit themselves (such as executive remuneration, monitoring of systems under their control, etc.), executive directors are forbidden by many countries' governance guidelines or codes from serving on board committees and participating in board discussions about management and management systems so as to avoid a conflict of interest (GIGA Quotes, 2005c; Corporate Governance and the Bottom Line, 2001). It is worth noting that some studies show that executive director run companies have greater profits due in large part to executive directors' having greater information and thus better able to make informed decisions than their non-executive director colleagues (Donaldson & Davis, 1994; Roberts, 2001).

Affiliated directors are also considered at least partially compromised by their loyalty conflicts. Affiliated or "related" directors are not employees but may have other connections to the company, such as being customers, suppliers, creditors, consultants, representatives of an identified group of shareholders or stakeholders. The affiliated director is linked to the company through certain relationships and because of this, the director's views may be affected because of such links. "IRRC generally considers any director affiliated who is a former employee; is an employee of or is a service provider, supplier, customer; is a

recipient of charitable funds; is considered an interlocking or designated director; or is a family member of a director or executive” (Investor Responsibility Resource Center, 2005a).

Independent directors do not have these relations or any others that may be perceived to have the potential to bias their judgment. The Higgs Report (2003) short definition of independence makes this clear: “A non-executive director is considered independent when the board determines that the director is independent in character and judgment and there are no relationships or circumstances which could affect, or appear to affect, the director’s judgment” (p. 37). Therefore agency theory supporters advocate that a majority of board members be independent directors. However, scholarly research does not consistently demonstrate a positive relationship between firm performance and an independent board (Shleifer & Vishny, 1997; Dalton & Daily, 1998).

Some have viewed the imposition of an independent board as a problem (rather than a solution): “independent board control over management may actually produce a negative relationship between the CEO and the board characterized by a lack mutual understanding and distrust” Westphal, 1999, p. 477). Studies to demonstrate that superior board effectiveness results from board independence have resulted in empirical evidence that has been mixed at best, and unconvincing to many (Daily et al., 2003; Shleifer & Vishny, 1997; Westphal, 2002). Neither an independent board nor separation of the CEO and board chair roles have been consistently associated with enhanced firm financial performance (Dalton & Daily, 1998).

In addition to leadership duality (the same person serving as CEO and board chair) and board independence, agency theorists have tried to find empirical evidence for board size as an indicator of corporate performance. Most countries' legislation only sets a minimum number of directors that must serve on the board. For example, the New Zealand Companies Act 1993 requires a minimum of one

director (Part 8, section 150) while the Securities Commission states in its governance guidelines that: "There should be a balance of independence, skills, knowledge, experience and perspectives among directors so that the board works effectively" (Securities Commission, 2004, Principle 2), implying that more than one director may be required to make an 'effective' board. However, reviews of the research literature find "no consensus" for a relationship between board size and firm performance (Dalton, Daily, Johnson, & Elstrand, 1999; Johnson et al., 1996).

Most of these studies referred to above are based on agency theory. Agency theory presumes implicitly that its behavioural views about individualistic self-interest and opportunism, and the resulting necessary enforced compliance are not nationally bounded but represent a universal problem for analysing and evaluating corporate governance. It has been suggested that agency theory and its assumptions reflect United States' cultural norms more than it reflects problems inherent in the corporate structure (Lubatkin et al., 2005). "The corporate governance practices of a nation are a solution to a set of problems designed to work in a specific context" (Lubatkin et al., 2005, p. 884). For example, Swedish social norms are based on notions of collective responsibility, reciprocity and voluntary compliance (Lubatkin et al., 2005). Much of the governance research originates from the US where the agency model is widely accepted. Perhaps it needs to be viewed as ethnocentric to the US, and other models of governance, such as stewardship theory, may be more applicable in countries such as Sweden whose culture emphasizes social controls (Lubatkin et al.). The agency theory governance model may be too rooted in the US institutional context: "We conclude that it is difficult for one nation to import or imitate the corporate governance practices of another nation" (Lubatkin et al., p. 884). For example, French corporate governance combines aspects of the US and the Swedish models to create a third type of governance model (Lubatkin et al.). Some European and Asian models of governance integrate banks, employees and/or unions into their structures, reflecting culturally-embedded views about stakeholders' interests and

control in governance (Edwards & Nibler, 2000; Roe, Ramseyer, & Romano, 1993). Agency theory, and its assumptions about human nature, may be a culture-bound theory, useful but not universally applicable.

Agency theory is an economic model that assumes that the exchange partners are untrustworthy when given responsibility for acting in others' best interests. Scholars Barney and Hansen (1997) working in the area of strategic competitive advantage, view trust as a source of potential competitive advantage, and succinctly summarise the reasoning for viewing boards and management as worthy of trust:

This rational, calculative, economic approach to trust [agency theory], many behavioral scholars argue, is empirically incorrect (since most exchange partners are, in fact, trustworthy), socially inefficient (since it leads to an overinvestment in unnecessary governance), and morally bankrupt (Etzioni, 1988). A more reasonable approach, it is argued, would adopt the assumption that most exchange partners are trustworthy, that they behave as stewards over the resources they have under their control (Donaldson & Davis, 1991), and thus that trust in exchange relationships -- even without legal and contractual governance protections -- will be common. (Barney & Hanson, 1994, p. 175)

Agency theory is limited in its explanatory power to guide research into board dynamics and board processes. A review of stewardship theory may provide some useful insights.

2.5 Stewardship Theory

In 1989, Donaldson and Davis (1991) introduced an alternative view of the purpose and role of the board. Stewardship theory challenges agency theory's assumptions about human motivation and the subsequent role of the board. Stewardship theory rejects the self-serving model of human motivation and in its

place, builds on the “self-actualizing” motivation theories of Maslow (Argyris, 1973; Lowry, 1973; Maslow 1954; McGregor, 1985).

This model is based on the view that humans have a need to grow beyond their current state and reach higher levels of achievement and that the assumptions of the economic view of man limit people from attaining their full potential (Davis, Schoorman, & Donaldson, 1997, p. 27).

Stewardship theory as an alternative to agency theory has gained a limited foothold amongst management scholars (Davis et al., 1997). Stewardship theory assumed that managers wanted to be good stewards of corporate assets and argued for corporate governance structures that authorised managers to act on their own initiative. It broadened the governance debate by incorporating knowledge from other disciplines thus shifting the focus from demographics, structural mechanisms and selective director’s actions to a much broader view of the directors’ roles, motivations and contributions. Stewardship theory added specific interpersonal behavioural requirements to board roles and responsibilities.

Under the stewardship view, the board is responsible for

- a) upholding the values of the organisation
- b) modelling and conveying to management the board’s commitment to helping employees grow and achieve their potential
- c) working with management to fulfill their legal and moral duties
- d) ensuring that the organisational values are honoured in all decision-making.
- e) co-creating the strategic direction with the employees
- f) involvement and accountability for crucial organisational decisions
- g) empowerment of workers
- h) serving as a partner and coach to the CEO (Davis et al., 1997).

To fulfill these stewardship responsibilities, the board must be competent in

- a) ethical awareness (to detect ethical dilemmas) and reasoning to determine which actions serve to most preserve and protect the organisation's values
- b) strategic thinking, analysis and planning to work with the management team, co-creating the strategy and plans
- c) extensive company knowledge, its environment (industry, political, social and technological developments), its competition, sufficient knowledge of marketing, human resources, manufacturing and/or service, quality systems and practices to check for strategic congruence
- d) business knowledge and leadership
- e) cooperative, altruistic, spontaneous unrewarded citizenship behaviours; highly participative, open communication style
- f) developing trust-based relationships and comfort with the vulnerability required to trust that management (and employees) will act in the organisation's best interests.

Stewardship theory advocates a collaborative approach to governance.

Proponents of this approach focus on enhancing board-management relationships and decision-making by empowering the managers in their role as stewards of the firm (Davis et al., 1997). A comparison of the central attributes of agency theory and stewardship theory is presented in Table 2.1.

Agency theory offers the pessimistic views of human nature McGregor (1985) characterised as Theory X. Stewardship theory promotes the nobler views of human nature consistent with McGregor's (1960) Theory Y. Both are theories of human motivation. Theory X portrays people as inherently lazy, avoiding working and responsibility if they can. Theory Y portrays people as ambitious, self-motivated, and anxious to accept greater responsibility. McGregor integrated Maslow's hierarchy of human needs into his theories of human motivation as did stewardship theory (Lowry, 1973).

Table 2.1: A Comparison of the Central Attributes of Agency Theory and Stewardship Theory.

	Agency Theory	Stewardship Theory
Agent's motivation source	Extrinsic	Intrinsic
Agent's motivation objective	Maximise utility to self	Self-actualization
Time frame	Short term	Long term
Challenge for principals	Limit agent's self-serving opportunities and divergence from principals' interests	Provide opportunities for steward's growth, achievement, affiliation
Focus of principals	Conformance	Performance
Orientation of principals	Control	Involvement
Objective	Cost control	Performance enhancement
Risk management strategy	Control systems (authorities, delegations, monitoring & reports, threat of termination); Contracts Align interests through incentives & consequences	Training, empowerment & trust; Building strong trust-based relationships;
Work and Goal-orientation	Individual	Collective/group/team
Fundamental principle	Unwillingness to be vulnerable	Willing to be vulnerable
Power orientation	Legitimate: authority of positions; reward: incentives; coercive: threats of termination	Personal: expert & referent
Values	No surprises; predictability; Respect authorities & rules; Separate thinking from doing No economic utility in value commitment therefore not relevant to exchange agreement	Cooperative, altruistic, spontaneous unrewarded citizenship behaviours; Highly participative, open communication, empowerment of workers Value commitment: Belief in organizational goals
Leadership orientation	Transactional	Transformational
Principals' role	A separate body; Accountable for hiring and firing management who are responsible for organizational results	Part of the collective; accountable to the collective for its contribution toward the organization's results

Psychologists refer to this area as the "black box of motivation" (Carl, 2005; Quinn & Cameron, 1988; Schein, 1975), perhaps because there are no consistent findings supporting a single theory of human motivation. Theory X and Theory Y are generally accepted as extreme positions, neither alone sufficient for capturing the full range of human motivations (Dunnette & Hough, 1991). Perhaps agency and stewardship theories may also be extreme positions of corporate governance polarising issues, such as control versus collaboration (Amihud, Garbade, & Kahan, 1999; Lane, Cannella, & Lubatkin, 1998, 1999) when integration is needed. Acknowledging that humans are a mix of both agents and stewards (Davis et al., 1997), perhaps it is time to seek other explanations for board process.

2.6 Paradox in Governance Research

The empirical research to validate either agency or stewardship theory has produced mixed results, some favouring one, some the other (Davis, Schoorman & Donaldson, 1997; Donaldson & Davis, 1991). The assumptions about human nature, upon which agency theory and stewardship theory are built, are both criticised (Roberts, 2001): "there is growing recognition that significant advances in management and organization theory will require ways to address paradoxes inherent in human beings in their social organizations (Quinn & Cameron, 1988)" (Poole & Van de Ven, 1989, p. 562). Some researchers have moved "beyond oversimplified and polarised notions" (Lewis, 2000, p. 760) and examined paradoxes finding "individuals, groups, and organizations as inherently paradoxical, embroiled in tensions and reinforcing cycles at their very core" (Lewis, p. 760). Poole (1989) captures the concept of theoretical paradoxes as follows:

Much effort has been devoted to resolving or understanding paradoxes, because they divulge inconsistencies in our logic or assumptions. They present opportunities to discover different assumptions, shift perspectives, pose problems in fundamentally different ways, and focus on different

research questions.... the types of paradoxes concerned with here are tensions and opposition's between well-founded, well-reasoned, and well-supported alternative explanations of the same phenomenon. When juxtaposed, they present a puzzle for the theorists, because each side seems valid, yet they are in some sense incompatible or hard to reconcile. (Poole et al., 1989, p. 564-5)

Acknowledging the paradox of human behaviours, the behaviours of both agents and stewards and possibly other motivation types, may be helpful in moving the research on governance forward. "The paradox may stem from conceptual limitations or flaws in theory or assumptions. To overcome these limitations it is necessary to introduce new concepts or a new perspective" (Poole & Van de Ven, 1989, p. 567). While parsimony in scientific theory is a criterion for a good theory, paradoxes cannot be eliminated, as they are part of human reality. Rather, they should be incorporated to build more comprehensive theory as Poole suggests:

An alternative strategy for theory building can be proposed: Look for theoretical tensions or oppositions and use them to stimulate the development of more encompassing theories. This strategy requires an exploration of the tradition of theoretical debate surrounding important issues, and identification of alternative or opposing theories or explanations, and discovery of ways of relating contra posing, or integrating them. The result will be theories less susceptible to the limitations of perspective which attend many middle range theories. (Poole et al., 1989, p. 563)

The coexistence of authority and democracy, efficiency and creativity, restrictions and empowerment, to name but a few organisational paradoxes, and "the rising intricacy, ambiguity, and diversity of organisations" (Lewis, 2000, p. 774) necessitates acceptance and accommodation of "the paradoxical nature of individuals, groups and organizational life" (Lewis, 2000, p. 774). While both agency and stewardship theories can and have contributed to governance

knowledge, other perspectives may provide some guidance for exploring and explaining board decision-making.

2.7 Board Process Research

Jensen and Meckling (1994) argued that the agency theory focus on conflicts, though valuable, has been shown to be “constrained at the time by our economists’ view of rationality” (p. 48). They suggested that the next phase of governance research should be to “open the black box called the individual and similarly recognize that, because of self-control problems that lead to non-functional behaviour, the individual cannot be said to maximize in the simple sense we economists have assumed for two hundred years” (Jensen & Meckling, 1994, p. 48). Management scholars have also recognised that researchers need to open the black box of actual board behaviour to hold boards accountable for what they do and perhaps more importantly, what they do not do (Huse, 2005; Roberts, McNulty, & Stiles, 2005). Leblanc summarises these sentiments:

The only possible way to know whether boards operate well is to observe them in action - to see and understand the processes by which they reaches [sic] decision. The missing link in establishing the relationship between board governance and corporate performance may be an understanding of the activity called board process.

Indeed, board process may be the single most important factor in determining a board's effectiveness, that is *the capacity of the boards make appropriate decisions* [emphasis mine] while overseeing that management operates in the best interests of the corporation and its shareholders. (Leblanc et al., 2003, p. 10).

Decision making is the board's contribution to governance. Decision making is an outcome of board process. Board process has an important impact on overall

board effectiveness and firm performance (Finkelstein & Mooney, 2003). "Board process is defined as how directors make decisions and the behaviour of the individual directors themselves" (Leblanc et al., 2003, p. 9). Board process research "will enable researchers to better explain inconsistencies in past research on boards, to disentangle the contributions that multiple theoretical perspectives have to offer in explaining board dynamics, and to clarify the trade-offs inherent in board design" (Forbes and Milliken, 1999, p. 502). The promise of board process research is that insights into effective process will provide better understanding of factors leading to better board outcomes. It does not seek to measure board outputs or performance.

Board process research is a distinctly different approach to governance research than theories focused on positional power (Pearce & Zahra, 1991; Pettigrew & McNulty, 1995). It starts with a different set of assumptions, such as defining a corporation as a set of relationships and resources (Roberts, McNulty, & Stiles, 2005), and contributes to theorizing by describing how a group of people, the board of directors, interact. As Pettigrew argues:

The major contribution of process research... is to catch reality in flight, to explore the dynamic qualities of human conduct and organizational life and to embed such dynamics over time in the various layers of context in which streams of activity occur. (Pettigrew, 1997, p. 347)

Board process research looks at the dynamic interplay of board practices, processes and performance. It examines board conduct and an array of contingency factors that influence, affect and mediate the board decision-making process "getting insight into what happens in the exclusive boardroom domain" (Pye and Pettigrew, 2005, p. S28).

The study of board process started with a trickle of research (Forbes & Milliken, 1999; Mangham & Pye, 1991; McNulty & Pettigrew, 1999; Pettigrew, 1992;

Pettigrew & McNulty, 1995; Pye, 1995; Westphal, 1999) and has grown to a recognisable stream (Gabrielsson & Winlund, 2000; Huse, 2000, 2005; Kiel & Nicholson, 2003; Nicholson & Kiel, 2004; Pye & Pettigrew, 2005; Roberts, McNulty & Stiles, 2005; Samra-Friedrichs, 2000a&b; Sundaramurthy & Lewis, 2003). It seeks to identify the contingency factors that interact with the inputs and processes of the board (Pye & Pettigrew, 2005). This area of research has offered several distinctive contributions that may provide useful guides for this research into board decision-making,

2.8 The Paradoxical Nature of Interdependent Task and Relationship Factors

Two themes seem prevalent in the board process literature: the first is the emphasis on the duality and paradoxical nature of the identified concepts. For example, Forbes and Milliken (1999) modeled board dynamics in terms of task and cohesiveness; Sudaramurthy and Lewis (2003) modeled boards in terms of the tensions between control and collaboration; Roberts, McNulty, & Stiles (2005) described his findings in terms of directors' knowledge and confidence, and executives' openness and trust of directors.

The second theme emerging from the board process research is that the concepts appear to fall readily within the task and relationship dimensions that Bales and Strodtbeck (1951) identified in studies of group process. Bales and Strodtbeck observed that group discussion shifted between task-related issues and group member relationship issues. They theorised that it was due to the group's concern for balancing the need to attend to task completion while simultaneously support group cohesion. The interdependence of task and relationship dimensions in group communication has been consistently observed and has become an established concept in communication textbooks (Erickson, 1974; Fisher, 1974 & 1980; Folger, 1987).

These themes, duality and paradox, and task and relationship, persist at several levels in recent research by Roberts, McNulty, and Stiles (2005). They focused on examining control (task-related) and collaboration (relationship-related) behaviours of the board in regard to the roles of supporting and monitoring management: "engaged but non-executive, challenging but supportive, and independent but involved" (p. S6). Directors were "seeking to establish and maintain their own confidence in the conduct of the company: that is the performance and behavior of the executives; the development of strategy; the adequacy of financial reporting and risk assessment; the appropriateness of remuneration and the appointment and replacement of key personnel" (p. S12). Controlling and collaborative behaviours may seem paradoxical; they also seem to have an *interdependence* quality wherein directors seek to balance the task and relationship dimensions inherent in the process of group decision-making.

Westphal (1999) developed a collaborative board model that explored paradox in boards: how boards provide advice and counsel to the Chief Executive Officer (CEO) while simultaneously providing control. Westphal argued that boards and the CEO needed to build personal ties that resulted in increasing mutual trust. Where there is trust, the need for "impression management concerns or a fear of appearing uncertain or dependent" (p. 9) may be eliminated or at least reduced, enabling the board and CEO to speak more openly and candidly. The need for mutual trust between the board and management, and the board members themselves, has been supported in subsequent research (Roberts, 1999, 2005; Sundaramurthy, 2003). The positive consequence of developing a "deepening reciprocal sense of both personal and professional trust, confidence and respect" (Roberts, 1999, p. 46) is said to result in the potential for directors to offer more candid feedback, confident that executives will consider their views (Sundaramurthy & Lewis, 2003) and, in turn, the CEO may seek greater input from directors, thus enhancing board effectiveness and ultimately, firm performance (Roberts, 2005; Westphal, 1999).

There appears to be a *trust cycle*, interdependent and mutually re-enforcing such as when executives perceive the "relevance and value of non-executive [director] contributions" it can lead executives toward "greater openness and trust, which in turn builds non-executive knowledge and confidence" (Roberts, 2005, p. S12). Roberts and Stiles (1999) contrast this "virtuous cycle of relationship building whose product is a deepening reciprocal sense of both personal and professional trust, confidence and respect" (p. 46) with a vicious cycle that can develop when competition and control are emphasized over collaboration and trust. Sundaramurthy and Lewis (2003) proposed that a reinforcing cycle of task-related conflict balanced with relational trust in others' capabilities supported board control and collaboration. This may contribute to achieving the "positive boardroom climate" that Roberts, McNulty and Stiles (2005) concluded matters most for board effectiveness. The concept of trust and the apparent need to balance task and relationship factors seem to be important variables in understanding board decision-making process. According to Huse (2005), trust and emotions "are among the most neglected parts in the current literature" (p. S75).

There is also a growing body of research that relies at least in part on empirical primary data. It has examined perception of roles and tasks, and explored power, influence, collaboration and control (Cornforth, 2001; Daily & Dalton, 1995; Demb & Neubauer, 1992; Huse et al., 2005; Ingley & van der Walt, 2005; Mace, 1971; O'Neal & Thomas, 1995; Pearce & Zahra, 1991; Pettigrew, 1992; Pettigrew & McNulty, 1995; Pye, 2001; Walt, 2003; Westphal, 1999; Zahra, 1996; Zahra, Neubaum, & Huse, 2000).

Although there has developed a relatively large body of literature on board role expectations, there is relatively little reported research on actual board task performance (Huse, 2005). New Zealand studies of boards of directors (Firth, 1987; Ingley & Van der Walt, 2001, 2002, 2003, 2004, 2005; Mak & Roush, 1999; Van der Walt & Ingley, 2001, 2003; Van der Walt, Ingley, & Diack, 2002; Van der

Walt, Ingley, Shergill, & Townsend, 2004; Van der Walt & Ingley, 2003) though aimed at the board, its role and functions, have not directly looked at boards' decision-making inputs or processes. Empirical primary process data are needed to understand what boards actually do, as opposed to what they say they do. This type of data is still scarce (Pettigrew et al., 1995).

Directors offer partial, interested explanations of what they do. This provides valuable information as to their perceptions. Direct observation of boards-in-action research is needed, along with other methods to confirm what they actually do and compare this with what they think they do and what the literature says they should do.

Most studies that do involve directors' views draw upon individual directors from different organisations (Ingley, 2005; Roberts, 2005; van der Walt, 2004; Walt, 2003) or senior managers and some directors of a single organisation (Golden-Biddle & Rao, 1997). Subjects from disparate boards in a variety of industries are treated as if they are homogenous group. This practice overlooks the variation in boards in different organizations in different contexts. It raises several problems including the question of how individual behaviour relates to board behaviour; how board dynamics can be understood or explored if the individuals are not from the same board; what assertions about boards can be made based on reports from multiple individuals from different board contexts (Pye, 2005). Contingency theory (Lawrence and Lorsch, 1967) suggests that there is no one best design for board decision-making and that not all board designs will be equally good or effective. Board decision-making process must take into account the directors' attributes (and possibly management's), other inputs, and the context in which the board works.

Access to whole boards is no doubt more difficult, but insights into board processes and directors' behaviour within the board context can shed light on

board decision-making in a way that studying directors from different boards cannot.

Inevitably, each board operates in a unique environment comprising different pressures, in which decisions and actions are taken at a particular time, against a particular historical legacy and set of future strategic ambitions, and which will lead to different indicators of performance being given priority, hence different drivers and constraints on action and evaluations of board performance. (Pye and Pettigrew, p. S32).

To understand board process, whole boards of directors need to be the unit of analysis. Few have studied intact boards (Huse, 2005). Therefore, very little is known about how boards actually work- what factors make some boards effective and others not (Leblanc & Gillies, 2003).

Actual board behaviour is not explored in the studies, even though some of them use proxies for actual board behaviour. Fewer than one out of eight of the empirical board papers published in the leading scientific management journal is about actual board behaviour (Huse and Gabrielson, 2004, as cited in Huse, 2005, p. S66).

This represents a serious gap in the knowledge required for understanding how boards make decisions, the factors that contribute positively or negatively to board decision-making, and potentially most importantly, what can be done to improve board decision-making. As good decision making is the board's contribution to good governance, understanding the antecedents and processes that contribute to effective board decision making is crucial.

One of the few governance studies to interview and observe in situ boards concluded that individual director attributes matter and that these attributes are reflected in the different contributions of board members (Huse, Minichilli, &

Schning, 2005). There has been very little research into what and how individual director attributes may influence the collective board.

Interestingly, modern guidelines for corporate governance are essentially an exercise in profiling.... The end result is that we make judgments about boards, and the companies they serve, based on what amount to rather subjective objective factors. In so doing, we evaluate boards and companies on the basis of what amounts to profiling. Rather than profile directors based on factors that have, as yet, not been clearly linked to anticipated outcomes such as greater board member monitoring or enhanced firm performance, wouldn't it be preferable to identify behaviours that more directly tap into board member and corporate performance? (Dalton & Dalton, 2005, pp.7-8)

Identification of director and board attributes and how they interact with board process may offer insights into understanding board performance.

2.9 An Approach for Studying In Situ Board Decision-Making Process

...in all the research, there is no analysis of how boards perform as boards - - how they make decisions -- and of the impact of the behavioural characteristics of various directors on the decision-making process. In short, in all of the work that is been done, *any explanation of how boards make decisions is missing* [italics added], and yet this may well be the most important factor in determining the effectiveness of the governance of an enterprise. (Leblanc & Gillies, 2003, p. 8)

It has been observed that the input-output model has been used almost exclusively in governance research for almost two decades (Huse, 2005, p. S66). It is recognised that inputs may be influenced by board process, which combined then result in the outputs:

In the context of the board as group, the minutiae of individual skill, motive and value and the processes through which they are combined will have great significance both for the quality of strategic decision-making as well as for the standards of individual and collective conduct through which these goals are pursued. (Pettigrew & McNulty, 1998, as cited in Roberts, 2001, p. 1563)

None of the governance models are drawn from observations of actual board decision-making nor do they seem to account for the processes with which boards make decisions. Van den Berghe & Levrau (2004) lists theoretical "criteria that constitute a good and effective board of directors" (p. 469): the right structure, the right people, the right culture, the right issues, the right information, the right process, the right remuneration and the right follow-through. Under the "right culture" he indicates this includes the "style of meeting", "style of debate" and "decision-making process and relationship among the board members" (p. 468). Somewhat limiting, under the "right process", he lists "the format of board and committee meetings...frequency and duration...degree of attendance...role in setting the agenda, voting procedures, minutes of the board, etc." (pp. 468-9), factors that seem to describe structure more than process. Within the criteria of "right people" some as-yet-to-be-determined level of cognitive skills (Forbes, 1999) and other skills and knowledge may be required of individual directors. Boards in action need to be studied to ascertain whether lists like this are reflected in actual effective board decision-making.

Perhaps the collective range and depth of these factors required for the whole board vary according to the board context. Research is needed to identify the internal factors, inputs and processes that may influence the ability of a board to work together to achieve its goals.

2.10 Chapter Summary

This chapter began with a review of the historical development of corporate governance. Management research on corporate governance has been dominated by agency theory perspective, which offered little insight into board process. Recognising this, researchers have begun to focus on board processes and board dynamics, with a call to examine firsthand "board conduct and director behavior" (Roberts, McNulty, & Stiles, 2005, p. S6). Concepts studied or suggested for study in this area included trust and the trust cycle (Roberts, 1999, 2005), social ties (Westphal, 1999), cognitive skills (Forbes, 1999), director and board attributes (Huse, 2005), boardroom climate (Roberts, 2005) and emotions (Huse, 2005). Research of an in situ board of directors was advanced as the next step needed to understand how boards actually make decisions, with the hope that it will identify factors, inputs and process that can contribute to more effective decision-making.

Design of this project will focus on internal factors influencing board decision-making, inputs to the board's decision-making process and the process itself. Specifically, this research will focus on internal factors that could inform the discipline and practitioners: factors that are potentially under the control of the directors and the board (or those who select the board members).

Huse (2005) observed, "it is a major challenge in corporate governance research to explore how the board may be different from other small decision-making groups" (p. S72). Motivated by the observation that boards of directors are small decision-making groups, the next chapter reviews the literature from the lens of small group research and seeks to apply relevant theories and findings to understanding the internal factors that can influence decision-making by boards of directors.

CHAPTER 3: SMALL GROUP RESEARCH: FACTORS INFLUENCING GROUP DECISION-MAKING

When we recognize that boards are really groups, and that much of what we know about groups can be translated to boards of directors, a new window opens up to make boards work.... process really does matter. (Finkelstein & Mooney, 2003, p. 112)

3.1 Chapter Introduction

In the last chapter the context in which boards of directors carry out their work, decision-making, was presented. The need to study how boards actually make their decisions was advanced. This chapter examines the literature on small group communication and decision-making to provide guidance on investigating board decision-making process.

Functional theory, the "most promising" (Pavitt, 1993) small group decision-making theory was the perspective chosen to guide this research into board decision-making. This was not the only perspective that could be used for exploring the board of directors, but it was a well-established research tradition that offers perceptions about group decision-making that may aid in exploring board decision-making. The *inputs + process = outputs* model, which functional theory uses, provided a structure for reviewing the variables that may mediate board decision-making process. The advantages and disadvantages of using descriptive or normative models of decision-making are discussed. Finally, potential problems

with applying small group research to boards of directors are discussed in section 3.12.

3.2 Functional Theory

Within the communication perspective on group decision-making, functional theory may provide useful insights to guide the study of board decision-making.

"The functional perspective is a normative approach to describing and predicting group performance that focuses on the functions of inputs and/or processes. The aim of theory and research from this perspective is to understand why some groups are successful and others are not... Issues regarding the quality of teamwork and those factors that contribute to it or detract from it compose the functional perspective." (Wittenbaum et al., 2004, p.17-18)

The functional theory of decision-making dominates small group decision-making research, possibly because it lends itself more readily to empirical testing (Wittenbaum et al., 2004). It is the most commonly used theory to examine and explain small group performance effectiveness (Bales, 1976; Callaway & Esser, 1984; Dewey, 1933; Gouran & Hirokawa, 1983; Janis, 1972; Janis & Mann, 1977; Orlitzky & Hirokawa, 2001; Park, 2000; Postmes, Spears, & Cihangir, 2001; Shiflett, 1979; Stasser & Titus, 1985; Wittenbaum et al., 2004). Functional theory is most closely aligned with the post-positivism paradigm (Wittenbaum et al.).

According to the functional perspective of group performance, group decision-making is best viewed as a system; "Groups are open systems...they have inputs and outputs" (Ellis & Fisher, 1994, p. 10). A change in any one element of the system affects all the others. The functional perspective is a normative approach to describing the functions of the inputs and processes that shape group performance. It is the most commonly used paradigm to explain and predict group decision-making behaviour (Wittenbaum et al., 2004).

Randy Hirokawa and Dennis Gouran first formally identified functional theory in 1983. Since then, Hirokawa has been the foremost published researcher in this area (Gouran & Hirokawa, 1983, 1986; Hirokawa 1982, 1983, 1984, 1985, 1987, 1988a & b, 1990, 1994; Hirokawa, Gouran, & Martz, 1988; Hirokawa & Johnston, 1989; Hirokawa & Pace, 1983; Hirokawa & Rost, 1992). Functional theory has its roots in the work of Dewey (1910), Bales (1950, 1953), and Janis (1972, 1982; Janis & Mann, 1977).

John Dewey (1933) published the best-known rational decision-making model in 1910. Rational models are predicated on the presumption that rationality facilitates the invention or discovery of effective solutions and sound decisions (Billingsley, 1993). Dewey called it a *reflective* thinking process. Dewey's (1933) reflective thinking model involved a sequence of cognitive steps:

- (1) a felt difficulty; (2) its location and definition; (3) suggestion of possible solution; (4) development by reasoning of the bearing of the suggestions; (5) further observation and experiment leading to its acceptance or rejection; that is, the conclusion of belief or disbelief (p. 72).

Functional theory advocates that the group decision-making process should be guided with logical (rational) reasoning and critical thinking to arrive at an effective decision. "Dewey was among a group of early influential thinkers in philosophy and psychology specifically referred to as 'functionalists' (Deutsche & Krause, 1965, p. 127)" (Gouran et al., 1993, as cited in Deetz, 1993). The functional theory derives its name from this group of contributors. Modern rational models of decision-making all bear a large resemblance to Dewey's original reflective thinking process. Dewey's rational model is reflected in Hirokawa's (1985) functional decision-making procedures (FDMP) as presented in Table 3.1.

Rational and reflective thinking models are predecessors and variations of the functional perspective. The central premise of functional theory is that through communication, group members must satisfy, or thoroughly complete, the

fundamental four *tasks* or *functions* for the group to make an effective decision. These tasks are listed in Table 3.1.

Critics of the functional view argue that communication is more of an impediment than an asset to group decision performance (Davis, 1973; Steiner, 1972). "Actual productivity = potential productivity – losses due to faulty processes", Steiner's (p. 9) process loss equation, exemplifies this view. Nevertheless, extensive reviews of the group decision-making literature (Hackman & Morris, 1975; Hirokawa, 1990) found "substantial agreement among researchers ...that something important happens in group interaction that can affect performance outcomes...there is little agreement about just what that 'something' is" (Hackman & Morris, 1975, p. 49).

Table 3.1: Comparison of Dewey's and Hirokawa's Models

Dewey's (1933) Reflective Thinking Steps	Hirokawa's functional decision-making procedures (Winter 1985); Requisite functions or tasks
Identify the problem	Thoroughly and accurately understand the problem;
Analyzes the underlying causes and the implications of the problem	
Generates a list of criteria that the ideal solution must meet	Establish evaluation criteria for a good solution
Generates potential solutions or options available to solve the problem	Generate/marshal realistic and acceptable alternative solutions
Evaluates each of the possible solution options against the criteria for the ideal solution and chooses the option that best fits the criteria, and implements it	Evaluate the positive consequences associated with each alternative choice; evaluate the negative consequences associated with each alternative choice

Three assumptions underlie the functional theory. One of these assumptions is that *inputs* (e.g., member's cognitive skills, task type, group norms, etc.) affect how the group performs. This will be discussed in detail later in this chapter. Two additional assumptions define the functional perspective: the group is goal oriented and the group's performance can be evaluated (Wittenbaum et al., 2004). Factors present at the start of a group's decision-making are called *input* factors. Likely input factors relevant to board decision-making are discussed in section 3.4. Once a group or board begins discussion or interaction, factors that may impact on the interaction or *process* leading up to decision-making are discussed in section 3.9.

Functional perspective research has focused almost exclusively on effectiveness of the group in satisfying the functional decision-making procedures (functions or tasks required for an effective decision-making process) and the resulting decision quality outcomes (lab studies used unequivocal problems to solve whose solution quality could be quantitatively measured). Group performance in task-oriented goals has been measured for both cognitive tasks (e.g., generating creative ideas, solving a problem, reaching a good group decision) and physical tasks (e.g., constructing something, performing a song). The functional perspective excludes groups whose purpose is socio-emotional goal-attainment such as social groups, support groups, therapy groups and some clubs. Because the work of the board of directors is goal or task-oriented, and the board's process performance can be evaluated, the board of directors satisfies the functional perspective assumptions.

Functional decision-making procedures have normative criteria describing how a group should perform to achieve an effective decision-making process. Group member actions that do not contribute to substantive goal attainment are viewed as constraints or defective interaction (Gouran & Hirokawa, 1996) as functional theory does not account for additional non-task goals such as satisfying social or political interests. Theoretically, the board of directors rise above self-interest and

focus their efforts toward attaining the greatest good for the company they are directing (Companies Act 1993, New Zealand Government, 2005). However, Janis (1989) recognised that group members may be operating under the influence of social constraints (e.g., cognitive, affiliative and egocentric discussed in 3.6), which could adversely influence group performance.

In light of social constraints, Gouran and Hirokawa (1996) proposed three additional assumptions that should underlie functional theory:

"First, one or more of the members of the group must be capable of recognizing and interpreting the signs of unwanted cognitive, affiliative and egocentric constraints. Second, the members are aware of how well interaction is serving to satisfy fundamental task requirements. Third, members will take steps to minimizing counter act sources of influence that limit prospects for filling fundamental task requirements" (Gouran et al., 1996, p. 74).

These additional task requirements are "ancillary" propositions focusing on the quality of communication. They incorporate recognition that negative influences or constraints must be addressed and minimised to increase the likelihood of effective decision-making (Herek, Janis, & Huth, 1987). The social constraints and ancillary propositions added to the functional task requirements recognise that there are two dimensions of group decision-making- task and social (Fisher, 1974). "Because people are involved in a group, the social dimension is evident. And because the group is expected to come to agreement on a decision, the task dimension is also important" (Fisher, 1974, p. 37). Hirokawa and Gouran (1996) incorporated additional assumptions that acknowledge the social dimensions of the decision-making task that must be met to satisfy the functional decision-making model:

1. The members of the decision-making or problem-solving group are motivated to make an appropriate choice.
2. The choice confronted is nonobvious.

3. The collective resources of the group in respect of the particular task exceed those of individual members.
4. The requisites of the task are specifiable.
5. Relevant information is available to the members or can be acquired.
6. The task is within the intellectual capabilities of the members to perform.
7. One or more of the members of the group must be capable of recognizing and interpreting the signs of unwanted cognitive, affiliative and egocentric constraints.
8. Communication is instrumental.
9. Members are aware of how well interaction is serving to satisfy fundamental task requirements.
10. Members will take steps to minimise or counteract sources of influence that limit prospects for adequately fulfilling fundamental task requirements (p.75).

With these additional input assumptions, functional theory addresses more of the contextual variables that can influence effective group decision-making.

The functional perspective is not concerned with the phases of group development (Bales & Strodtbeck, 1951) but rather with the successful completion of the requisite functions or tasks believed necessary to achieve an effective solution. Related functional perspective techniques and theories include Janis' groupthink theory, social decision scheme theory, collective information sampling sharing (previously reviewed shared and unshared information research (see Stasser 1999 for a review), transactive memory, and of course functional theory (Hirokawa, 1994; Hollingshead et al., 2005). The functional model is structured and formal but not *prescriptive*. Prescriptive theories are discussed in section 3.10.

The functional perspective postulates that group interaction is the means by which the group pools its resources to arrive at a satisfactory solution (Gouran, 1984, 1991; Hirokawa, 1985, 1988; Janis, 1982; Janis & Mann, 1977). In many studies,

Hirokawa and his associates (Gouran & Hirokawa, 1983; Hirokawa, 1982, 1983a, 1983b, 1988; Hirokawa & Pace, 1983; Hirokawa & Scheerhorn, 1986) have found that decision quality is associated with satisfying or fulfilling certain critical or requisite decision-making *functions* (Pavitt, 1993). The performance of these *functions or tasks* is critical to obtaining good group decision quality. These functions or tasks are carried out during the discussion, interaction or process portion of group decision-making.

3.3 Inputs + Process = Outputs Model

Group decision-making may be best understood and studied by an *input-process-output* model. Functional theory views communication as the medium for group interaction, a channel upon which moderator factors or variables impact and influence outputs (Hirokawa & Poole, 1996). Moderator variables affect the direction or strength of the relationship between the independent and dependent variables. Moderators do not cause the output but rather change or impact upon the causal relationship between variables (Neck & Moorhead, 1995). Jarboe (1988) found “a total model (input + process = output) consisting of significant independent conditions, communication behaviors, and interaction effects between communication and procedure, accounted for the most variance in two of three satisfaction measures and all three measures of productivity” (Seibold, Meyers, & Sunwolf, 1996, p. 244) The functional perspective assumes a causal chain: *inputs* moderate the discussion/interaction *process*, which influences the quality of the *outputs*.

In functional theory, communication is the medium and inputs and process moderators affect the outputs. Influential inputs include variables such as group norms, member’s attributes (e.g., intelligence, knowledge, motivation, emotions, etc.), task type, information, relationships, group structure and members’ preferences. Each of these will be discussed in turn in the following sections.

Process factors also influence the group discussion or interaction processes. The decision-making *process* is broadly defined as: "a process of deliberation, choice, and planning which involves the gathering and processing of information, problem definition, solutions search, analysis, evaluation of alternatives, selection of the course of action, and planning for implementation" (Poole, 1991, p. 56). Process factors include structured versus unstructured discussion methods, planning, vigilance, groupthink, leadership, meeting procedures, decision-making rules and time pressures (Orlitzky & Hirokawa, 2001). Some factors such as affiliative, cognitive and egocentric constraints, leadership and cohesion may be viewed as both input and process variables. Each of these process factors will be discussed with regard to board decision-making following the discussion of input factors.

Outputs (decision quality) and subsequent group decision-making performance outcomes (group cohesion, commitment to the decision, member satisfaction) depend upon inputs and process variables (Hirokawa, 1994). Outcomes such as decision performance, the emergence of an informal leadership and members' satisfaction may have a circular influence on the group's next decision-making effort. As Keyton (2004) reminds us, "communication creates the group, good or bad, successful or failing. Communication, especially group communication, does not always result in positive or effective outcomes for the group its members [sic]" (Keyton, 2004). How the various inputs and process factors may affect the outputs and subsequent outcomes of the board of directors is the focus of this exploratory study.

Empirical testing of the functional theory has focused on the group's satisfaction of the requisite 'functions' or task requirements, and how these correlate with subsequent decision-making performance (Hirokawa, 1985, 1988, 1990). If the tasks that make-up the functional decision-making procedures, are not adequately satisfied, the chances of the group's making an effective decision are diminished (Hirokawa, 1983).

One of the strong attractions of functional theory (Craigian & Wright, 1990, 1993; Gouran & Hirokawa, 1983, 1986, 1996; Gouran, Hirokawa, Julian, & Leatham, 1993; Hirokawa, 1980, 1980, 1982, 1985, 1988, 1996; Pavitt, 1994) is that the findings point to factors that lead to more effective decision-making that are *within the control of group members*. This immediate applicability of the theory and its findings may make it more accessible and useful to practitioners of governance.

Factors present prior to any group discussion (the *inputs*) are likely to mediate the group discussion (the *process*) which in turn influences the group output (Gouran et al., 1983). A review of the input and process factors from the communication and social psychology literature may contribute insights into factors that influence board decision-making.

Additional categorisation of decision-making factors may aid in understanding. Input and process factors will be identified as either task or relationship factors. Factors will be further categorised according to the six themes that Hirokawa et al. (2000) found subjects believed accounted for why groups succeeded or failed: structure, process, communication, relationships, member emotions and member attributes.

3.4 Task Input Factors

3.4.1 Task Type Criteria

There is widespread agreement that the task type (degree of complexity and difficulty) must be taken into account when studying group decision-making performance (McGrath & Altman, 1966). Hirokawa (1990) has provided a theoretical framework for analysing "task demands" or levels of complexity and difficulty associated with particular tasks. He proposes that the task structure (goal clarity, goal path clarity, goal path mechanics and goal path obstacles), information requirements (information distribution and information –processing demand), and evaluation demands (solution multiplicity, criteria clarity and objective verifiability) mediate the communication and decision-making process requirements for a successful decision. These task criteria can be used to analyse the degree of complexity and difficulty that boards of directors face.

Task structure

Goal clarity measures the extent to which the group has identified the desired end state or goal to be achieved (Hirokawa, 1990).

Goal-path clarity is the degree to which the group understand how best to achieve the goal. A simple task has high goal-path clarity where recognition of the best means to achieve the goal is more obvious, whereas a complex task has low goal-path clarity (Hirokawa, 1990).

Goal-path mechanics measures the number of actions or steps needed to achieve the desired end state. A complex task will have many actions or steps necessary (high goal-path mechanics) whereas the simple task will have few (low goal-path mechanics) (Hirokawa, 1990).

Goal-path obstacles measure the number of obstacles or barriers the group will have to overcome to achieve the desired end state. A complex task with high goal-path obstacles will have many barriers, some of which may be unknown until the task is started. A simple task with low goal-path obstacles will have few and/or easy barriers to surmount (Hirokawa, 1990).

Information requirements

The second of Hirokawa's (1990) task type elements is the information requirement. Hirokawa (1992) asserts that it is the amount and accuracy of information that is the most important factor in whether a group succeeds or fails in achieving an effective decision. The better informed a group is about the problem as well as the positive and negative qualities of alternatives, the better the group should be able to reach high quality decisions. The two criteria Hirokawa (1990) posits for this factor are information distribution and information-processing demand.

Group members, through their day-to-day work, social experiences, education and training, hold unique information and knowledge. This uniquely held knowledge is referred to as 'unshared' information as only one or two group members are aware of the information prior to any group discussion. Information categorised as 'shared' refers to information that most or all the group members are aware of before group discussion. The purpose of the group discussion is to take advantage of the greater knowledge inherent in having more people included in the decision-making activity. The exchange of *unshared* information is the manner in which the group's collective knowledge can be accessed and used to improve the decision quality.

Theoretically, pooling each member's information enables a group to make a better, more informed decision than any one member could do alone. The exchange or pooling of unshared information correlates with better group

decisions (Levine & Moreland, 1990). However, research shows that most group discussion is dominated by information that is shared, as unshared information tends to be omitted from decision-making (Larson, Christensen, Franz, & Abbott, 1998; Stasser et al., 1985; Stasser, Taylor, & Hanna, 1989). This tendency to discuss information that is already known to members may result from the pre-discussion distribution of the shared information: “the more members there are who can mention that item, the more likely it is that the item will in fact be discussed” (Winqvist & Larson, 1998, p. 371). The advantage of using a group to problem solve (as opposed to a single individual) is lost when unshared information is not accessed and pooled as input to the decision-making activity.

Pooling the unshared information is the opportunity for members to become aware of and perhaps influenced by new information, potentially altering their view of decisional implications and their analysis of the best choice alternative. Studies show that groups pool and discuss more of the shared information (Stasser et al., 1989; Stasser et al., 1985) yet only the unshared information “significantly influences the quality of their decisions” (Winqvist et al., 1998, p. 375). The more unshared information is pooled, the more groups are able to select the best alternative. Because members form views (pre-discussion preferences) based on the information they already possess (shared information), the pooling of shared information made no difference to their solution preference. Thus, shared information mediates pre-discussion preferences whereas group discussion is mediated by sharing unshared information.

Shiflett (1979) viewed information as a resource for the group. Discussing the same, already known information “does not increase the total set of available resources but does increase the probability of that resource being used “ (Shiflett, p. 72). To improve decision-making, a method of encouraging or ensuring that unshared information is pooled during discussion would be beneficial. For a board of directors, it is important to recognise that the information shared through board papers, distributed prior to discussion, is influencing member’s pre-discussion

preferences. Any unshared information which can potentially mediate this input bias and provide a more complete analysis for selecting the best alternative, can have a positive influence on the decision provided it is considered during group discussion: "Group discussion provides an opportunity to counteract this initial imbalance in informational influence" (Winqvist & Larson, 1998, p. 375).

Theoretically, boards of directors are composed of directors with differing areas of expertise, with unshared information that must be revealed and considered if the board is to make the best possible solution selection.

If the information necessary for completing the task is evenly distributed among group members and the amount and complexity of the information is low, the information requirement is said to be means-independent. However, if the necessary information is unequally distributed and the amount of information is high, the content quite complex, the information requirement is said to be means-interdependent (Hirokawa, 1990).

Evidence suggests that means-interdependent information requirements (a large quantity of unshared information of a complex nature) are best achieved through high group interaction and collaboration (Hirokawa, 1990). Studies of "open" decision tasks (multiple acceptable choices, nonobvious criteria and objective nonverifiability) have shown communication can positively affect decision-making effectiveness (Hirokawa, 1990). Lastly, Hirokawa found that "for simple tasks, input variables tend to be more important than process variables, whereas for relatively complex tasks, process variables outweigh input variables in importance" (Orlitzky & Hirokawa, 2001, p. 316). Therefore, boards of directors' 'process' variables should be the focus of research to improve board decision-making.

Evaluation demands

The last factor in Hirokawa's (1990) task contingency perspective that mediates group interaction is the evaluation demand dictated by the task. This task factor describes the extent of effort required by the group to determine the

appropriateness of the solution(s). Evaluation demand is measured on three scales: solution multiplicity, criteria clarity and objective verifiability (Hirokawa, 1990). The greater the number of solutions viewed as appropriate or viable, the greater the solution multiplicity (and difficulty in making a decision). The more the criteria (standards) for evaluating a potential solution can be succinctly stated (obvious criteria), and then less effort is required by the group to select the solution that best fits the criteria.

If a potential solution can be definitively shown to be viable and or optimal (objective verifiability), the degree of evaluation demand is less than solutions that cannot be objectively verified to be correct or appropriate. When there is a single correct choice, obvious criteria and objective verifiability, the evaluation task demand is said to be unequivocal. In situations where there are multiple acceptable choices, nonobvious criteria and objective non-verifiability, the evaluation task demand is said to be equivocal (Hirokawa, 1990).

Board task complexity

Boards are reported to face highly complex decision-making:

"Much of the work of boards must do in order to produce effective outcomes involves cooperative decision-making and joint efforts. Most decisions are complex, requiring multiple perspectives...to produce a high quality outcome." (Conger, Lawler, & Finegold, 2001, p. 28).

The board of directors make major strategic decisions (Westphal & Zajac, 1997). Strategic decisions, and other complex decision-making tasks boards undertake, may have numerous potentially acceptable solutions, few or inadequate solution evaluation standards and a potentially long (lag) time to verify the effectiveness of the choices, often several years after the decision-making time. Board of directors' tasks may be characterised as being judgmental and evaluative for

which there does not appear to be a demonstrably single correct solution at the time of decision-making.

Applying Hirokawa's task factor descriptions to the legal task requirements of the board of directors under the Companies Act 1993 (New Zealand Government, s128), as presented in Table 3.2, reveals that the decision-making tasks undertaken by boards of directors range from some simple tasks, such as administrative decisions (simple structure, low information requirements and evaluation demands) to some complex tasks, such as strategic decisions (complex structures, high information requirements and high evaluation demands).

Table 3.2: Complexity of Board's Legal Task Requirements

The business and affairs of a company must be managed by, or under the direction or supervision of, the board of the company (s128).

	Administrative decisions	Strategic decisions
Structure:		
goal clarity	high	low to high
goal-path clarity	high	low
goal-path mechanics	low	high to unknown
goal-path obstacles	low	low to high
Information requirement:		
means-independent	equal distribution of critical information	unequal distribution of critical information
means-interdependent	low information-processing demand	high information-processing demand
Evaluation demand:		
unequivocal	single correct choice obvious criteria	multiple acceptable choices
equivocal	objective verifiability	nonobvious criteria objective non- verifiability

Group interaction and communication becomes increasingly critical for increasingly complex tasks (Hirokawa, 1990). As boards of directors face complex tasks, they therefore need an effective decision-making *process* (group interaction and communication) to achieve the best possible output.

Janis and Mann (1977) theorised that adequate or inadequate consideration of information (in relation to the choices available) was the differentiating factor between effective and ineffective group decision-making. Cline & Cline (1979) found empirical evidence to support this theory.

Evaluation of negative consequences of potential alternatives is correlated with group effectiveness (Orlitzky & Hirokawa, 2001) when task evaluation demands are high. In light of these findings, it is critical that boards of directors facing complex problems satisfy the task evaluation function.

Hirokawa (1987) observed that “although it seems reasonable to assume that the ability of a group to arrive at a high-quality decision is a function of the quantity and quality of task-relevant information available to it” (p. 4), this assumption is not consistently supported by empirical research. Whereas Hirokawa looks to the process to explain the “failure” of informed groups, experiments have shown that information overload may result from excessive information quantity. This may be detrimental to decision quality. For example, Brockhoff (1986) examined the results of several studies and found that “an oversupply of information could produce information overload with a negative impact on problem-solving quality (Driver and Streufert, 1969)... Too much information forces the decision maker to spend time organizing information instead of solving the problem” (Lucas and Nielsen, 1980; Brockhoff, 1986, p. 982).

Brockhoff examined Witte’s (1972) research of innovative decision-making. Witte discovered a relationship between decision quality and information demand.

“Assuming that this result holds strictly and in general, it implies:

- (1) Managers in general are able to acquire "relevant" information even for innovative decisions. They exhibit insight into the problem structure (Witte, 1972, p. 50).
- (2) The acquisition of information is possible only within the limits set by supply, which has a qualitative and quantitative dimension (Grotz-Martin, 1976).
- (3) Managers know when to stop information demand within the supply limits, thus avoiding overload problems. As long as information demand occurs, it signals the free capacity of information processing (Witte, 1972, p. 48).

Brockhoff (1986) points out three types of demand-generated information overload: "duplication of information, increase of complexity over subjectively felt needs for problem solution, and demand for objectively irrelevant information" (p. 251). An analysis of protocols of board meetings of a medium-sized company concluded that there was "an indirect, necessary but not sufficient relationship between information demand and decision quality via an optimization of complexity" (Hauschildt, as cited in Brockhoff pp. 251-2).

Information relevance mediates information utility (Brockhoff, 1986). This assumes that decision-makers (the board) or those supplying them the information (generally, the CEO) have some knowledge about the type of information needed for the solution of problem. While the board has the duty to inquire and make sure that it is informed enough to make effective decisions, some scholars would also claim that management has an "affirmative duty to ensure that the board had all the facts necessary to make its decision[s]" (Langevoort, 2003, p.1196). This would mean that information "relevant to a discrete decision the board is about to make" (Langevoort, 2003, p. 1200) should be supplied by the CEO. Perhaps rather than placing reliance on either the boards demanding the right quality and quantity of information, or the CEOs supplying the same for boards, it may be that

both the board and CEO should work together toward identifying and obtaining sufficient task-relevant information without incurring information overload.

The input factors discussed thus far, task structure, information requirements and evaluation demands, may be categorised as task-related. Additionally, there are two task input factors that shape the group decision making process and group relationships so significantly that they may be categorised as both task and relationship factors, and both input and process factors. These are Meeting Rules and Decision Rules, discussed next.

3.5 Task Input Factors that Shape Relationships: Meeting Rules and Decision Rules

3.5.1 Meeting Rules

"It is during board meetings [that] much of the work of boards is accomplished, and it is here that the processes of group interaction play out in such a substantive way" (Finkelstein, 2003, p. 110). The purpose of meeting rules is to optimise board interaction and subsequent work quality.

Boards use systems and tools (rules and procedures such as meeting procedure rules, voting rules, meeting agendas, decision-making procedures, appointing a leader, recording decisions, etc.) to organize and coordinate their contributions. Groups that follow set procedures tend to be more satisfied with their decision (Nemiroff, Pasmore, & Ford, 1976; Delbecq, Van de Ven & Gustafson, 1975) and as a result may be more committed to their implementation (White & Dittrich, 1980).

Parliamentary procedure is an example of a meeting procedure (Weitzel & Geist, 1998). The parliamentary procedure focuses on how the meeting is conducted

with the underlying principle of protecting and promoting democratic participation. Parliamentary procedure helps structure discussion by specifying the focus of discussion, who may address the topic, how procedural requests are to be raised, how and when decisions are to be made and how the rules for speaking are to be enforced challenged, amended or suspended. Parliamentary procedures are called rules of order or standing orders in most New Zealand organisations (Pitchforth, 1999). Standing orders codify procedures "for protecting the participation rights of majorities, minorities, individuals and absentees" (Ellis & Fisher, 1994, p. 150). Standing orders organize group discussion and provide mechanisms the chair may use to control the garrulous and focus discussion (Pitchforth, 1999).

Critics of parliamentary procedures argue that the procedures are too highly restrictive and do not allow for spontaneous expressions, may stifle creativity, and over control group members' behaviour. The value of a formal procedure may depend upon the situation and several researchers have suggested that particular circumstances may dictate use of particular procedures (Nutt, 1984; Pavitt, 1993; Poole & Desanctis, 1990). However, there appears to be a paucity of research that actually examines the relationship between discussion procedures and appropriate circumstances.

To promote fair participation, it is recommended that some form of rules of order or meeting rules (such as Roberts' rules of order, parliamentary procedure, standing orders etc.) be adopted (Ellis & Fisher, 1994; Harper, 2005; Pitchforth, 1999).

"Ample evidence suggests that procedures help groups perform better...if correctly performed formal discussion procedures can be a force for democracy in decision-making, and this fact alone may warrant their employment in institutions in which democracy is valued." (Pavitt, 1993, p. 232). Boards are groups and there are well-established methods to address the problem of limited airtime and maximising member participation. Numerous facilitation techniques promote greater member involvement in debate and encourage the richness of discussion while reducing

the opportunity for one or two people to dominate. These discussion facilitation tools include nominal group technique, dialectical inquiry, the Delphi method, Ishikawa's fishbone diagram, and devil's advocate to name but a few. It is the responsibility of the chair to facilitate the discussion and know and use the most appropriate techniques to achieve an effective board process.

3.5.2 Decision Rules

There are various ways for the group to make a choice; these ways of deciding are called decision rules. In *majority rule*, each member votes and the solution receiving the greatest majority of votes is chosen. *Consensus* decision-making requires all members to agree to the decision.

The majority vote rule has the advantages of being quicker than consensus and preventing impasses (Mannix, Bazerman, & Thompson, 1989). Majority rule ceases the need for discussion and further communication once the majority of group members are satisfied. Dissenting member views and even perhaps unshared information that is critical to integrative decision-making may be withheld once it becomes obvious that a solution is acceptable to the majority. It is easier for the group to satisfy the majority rule rather than continuing the often-difficult search for an integrative agreement (Mannix et al.).

The advantages of consensus (unanimity-required) decision-making are that it recognises individual preferences and perspectives, and encourages trade-offs that are critical to integrative decision-making. Under consensus rule, the agreed solution must satisfy all group members. However, group norms that promote consensus have been shown to attribute too much value to group members' *shared* information, ignoring *unshared* information with a resulting negative impact on the quality of the group's decisions (Postmes et al., 2001). Consensus groups may be "cautious about challenging the value of shared information" (p. 927) unless group norms support independent and critical thought by group members

(Postmes et al., 2001). Comparing conventional interacting groups to consensual groups, Nemiroff et al. (1976) found many advantages for the consensus groups:

1. Consensus groups did not require significantly more time to reach a group decision.
2. Group members were more satisfied with their own and the groups' performance.
3. Domination by a single group member was likely under consensus rules.
4. When disagreements occurred within the groups, fuller presentation of views was more likely in consensus groups.
5. Consensus groups performed significantly better on decision task.

Thompson et al. (1988) studied negotiation problems using small groups. Negotiation is when two or more parties work together to agree one mutually acceptable solution. Boards of directors appear to negotiate with each other to find the solution acceptable to all. Negotiation was defined as a mixed motive task as it requires both cooperation to achieve a mutually acceptable decision and independence of thought as each negotiator (director) works from his or her own frame of reference. In a board meeting, directors must strive to achieve mutually agreed upon goals while working together in a coordinated and cooperative manner, preserving independence of thought. Mannix defines an integrative decision as "one in which no other agreement exists that all parties would prefer" (Raiffa, 1982, p. 509, as cited in Mannix et al., 1989). Mixed motive groups using majority rule resulted in lower group outcomes and distributed resources more unequally than groups operating under unanimous rule. Thompson's findings also supported the use of unanimous rather than majority decision rules to increase the probability of integrative agreements in mixed-motive decision-making (Thompson et al., 1988).

Research shows that groups that make decisions as a collective using unanimous decision-making rules make superior decisions compared to groups that make individual decisions with a majority vote or other such decision-making rule

(Nemiroff & King, 1975; Thompson, Mannix, & Bazerman, 1988). The legal structure of the board of directors is such that directors are jointly and severally responsible for the decisions the board makes. In fact, individual directors have no power or authority unless the whole board has delegated some to them, which is rare. This collective decision-making body must find ways to achieve a meeting of the minds to fulfill its decision-making structure as a collective and not as the sum of individuals who make up the collective. For boards of directors, decisions should be of the highest quality achievable and therefore techniques associated with higher quality decisions such as developing critical group norms and adopting the consensual decision rule may be recommended. Improvement in board decision-making process could lead to an increase in decision quality, which does no harm and may improve organisational performance.

Researchers contend that task and social functions are inseparable in group decision-making (Fisher, 1974). The next section describes input factors categorised as part of the social or relationship dimension of group decision-making.

3.6 Relationship Input Factors: Board and Director Attributes

The board of directors is the primary unit of analysis with the individual directors being embedded units of analysis. Both the board as a group and the individual directors as constituents of the group may need to be studied to understand how the parts contribute to the whole, and conversely, how the whole (board) affects the individual members.

3.6.1 Board Norms

Norms are defined as “A standard that regulates the behavior of all members of a group through feedback directed at members whose behaviors are contrary to that standard” (Ellis & Fisher, 1994, p. 309). Norms set standards of behaviour or patterns that become “a normal and consistent phenomenon of every social system” (Ellis & Fisher, p. 128). They may be explicit or implicit, recorded or unacknowledged. Norms are expectations of the group and as such, shape group behaviour and impact on group performance. Group norms collectively form the basis for the group's culture. Culture is understood to be largely comprised of tacit shared assumptions (Shein, 1989, as cited in Roberts, 2001).

Group "norms have a substantial impact on the quality of group decisions" (Postmes et al., 2001, p. 927). Some norms that encourage conformity may be beneficial to the group. For example, establishing the expectation that mobile phones should be turned off during meetings to show respect for and attention on the group, may be a positive, beneficial norm that builds a high regard for the meeting content and process amongst members. Some of the norms that boards need established to support effective group interaction include (a) how the board will structure its work: specifically who does what; (b) agreement on the goals; (c) how decisions will be made; (d) criteria for evaluating their performance; and (e) meeting rules. These norms serve multiple purposes as described by Conger et al. (2001):

Teams operate most effectively when they have rules and guidelines to cover their behaviour. It is particularly important members agree on certain process rules with perspective interactions in the team. These rules can relate to such matters as how people get recognized to talk, how individuals will share the air time in board meetings (for example, agreement that individuals will be allowed to complete sentences and thoughts before someone else talks). Agreements about how teams operate and how they

will judge their own performance are most useful when assessment processes are in place to determine how well teams are working. (p. 29)

Conformity pressures exerted on group members can also be destructive as evidenced by the *groupthink* phenomenon. This phenomenon is discussed in more detail in section 3.9 on process factors.

Board attributes (e.g., culture, norms, cohesiveness, homogeneity, trust, etc.) and individual director attributes (IQ, EI, commitment, moral development, etc.) are inter-related; the effectiveness of individual directors and how they interact with each other has a great deal to do with determining board effectiveness. "It is not possible to have an effective board without effective directors" (Leblanc & Gillies, 2003, p. 10). For example, in a recent case study of an effective Norwegian board, the board culture was described as being characterised by "cohesiveness, openness, generosity, involvement, creativity and criticality" (Huse, Minichilli, & Schning, 2005).

Until recently, how board norms influence decisions and actual board behaviour has mostly been ignored in studies of boards of directors (Gabrielson 2003; Ocasio 1999). The impact of norms may be profound: "the board's decision-making culture, formal and informal structures and norms, and the interactions inside and outside the boardroom are important elements" (Huse 2005, p. S72). Further research is needed to discover how norms and the resulting board culture may influence board decision-making.

3.6.2 Relationships

Additional human resources applied to a problem yield a higher quality solution and reduce the chances that the decision will be grossly faulty (Janis, 1972; Pavitt, 1993). Social psychologists have long focused on group members' individual traits

as an independent factor affecting group outputs (Jarboe, 1990). Early studies showed that "groups that are compatible in terms of needs and personality are more effective and more satisfied" (Jarboe, 1990, p. 25); however, higher quality decisions are produced by groups with dissimilar personalities (Hoffman, 1959; Hoffman & Maier, 1961). Diversity in group membership increases the likelihood of creative and innovative solutions to problems (Milliken & Martins, 1996). Rindova (1999) argues that for boards to be useful in strategic decision-making, they must contribute cognitive diversity to their organisation. A heterogeneous background (whether educational, occupational or social) and/or experience can provide a group with sources of diverse ideas and contrasting perspectives that may inform decisions. However, diversity poses a challenge for collaboration. Shared understandings facilitate trust (Bradach & Eccles 1989).

Although there are some negative results, the bulk of the evidence suggests that groups that are compatible with respect to needs and personality characteristics are able to... achieve their goals more effectively than groups whose members are incompatible with respect to needs and personality characteristics. (Shaw, 1981, p. 258)

Research has found greater goal achievement in more compatible groups (Schutz, 1966). Differences in background and experience may make individuals feel uncomfortable interacting; they may rely instead on formal communication and bureaucratic procedures that slow decision-making and form barriers to the open exchange of information (Milliken & Martins, 1996). Incompatible groups required time to "organise and to develop their interpersonal skills" before being able to outperform compatible groups solving concrete tasks (Reddy & Byrnes, 1972). This observation complements Janis' (1972, 1982) findings that the higher the group's cohesiveness and unity, the less likely they will experience interpersonal conflicts.

Simultaneously promoting diversity and shared understandings may enable boards to harness the benefits of control and collaboration. Diversity provides a

variety of perspectives to enrich decision-making whereas shared understandings encourage mutual trust and more positive interactions (Sundaramurthy & Lewis, 2003).

Additional factors, such as preferences for procedural order, effort, motivation, trust and moral development, may affect compatibility and thus board interaction. These factors are discussed next.

3.6.3 Individual Attributes

Researchers of group decision-making have observed the influence that the quality of thinking of the group members has on the process and outputs as the group works to reach a collective decision (Hirokawa, 1982; Hirokawa & Rost, 1992). The cognitive and psychological variables inherent and unique to each group member contribute to the process and influence overall group performance: "... group performance depends, at least in part, on the abilities and personalities of group members" (Levine & Moreland, 1990, p. 615). Directors place emphasis on "team spirit, mutual respect and trust [as].... A climate of trust, candour and open dissent, collective wisdom, collective strength and behavioral expectations" are elements that improve board performance (Van den Berghe & Levrau, 2004, p. 470).

Research shows that the ability of the group to reach a high-quality decision is dependent upon members' ability to draw correct inferences from the information brought to the group. The group is more likely to reach a high-quality decision when appropriate conclusions are drawn from the relevant data available to them (Patton & Downs, 2003, p.19). Data (information) alone is not enough to make good decisions. Analysis and critical judgment are also required. Zeev (1981) describes the attitudes required and types of problems boards have to solve as: (a) being sensitive to new information, (b) being open to changing their beliefs in

the face of new information, (c) making decisions with incomplete and or conflicting information and (d) being innovative in generating possible solutions.

Communication provides the means for exchanging views on the data's relevancy, application and how it fits or does not with values, principles, goals and other needs that must be considered for a good solution. Forbes and Milliken (1999) characterize the board's outputs as cognitive. Thus, cognitive skills are necessary for boards to be able to carry out their tasks and make effective decisions. Two types of cognitive skills, analytical and emotional, are relevant to effective board decision-making and are discussed in the next sections.

"IQ" intelligence

Historically, people's intelligence has been referred to as "IQ" (intelligence quotient) referring to the total relative score on psychometric tests of cognitive abilities. "Intelligence" is used in the literature to refer to the thinking capacity an individual has to apply to cognitive problem solving. Cognitive processes that most people engage in daily include: ability to detect and interpret sensory stimuli (sensation); ability to translate visual events into spoken language (language processing); ability to focus on certain stimuli and disregard others (attention); knowledge that objects have specific names (semantic memory); and, the ability to extract meaning from letters and words (perception, reading and information processing) (Solso, MacLin, & MacLin, 2005).

Cognitive skills are required to enable directors to establish appropriate effort norms, constructively resolve conflicts and effectively utilise the knowledge and skills of group members (Carpenter & Westphal, 2001). To fulfill the responsibilities of director requires additional cognitive capabilities, including: ability to solve a problem; detailed knowledge of the physical characteristics of the environment (industry, company, political, environmental, social and technological); ability to abstract certain parts of events and integrate those parts into a well-structured schema that gives meaning to the total episode

(representation of knowledge); capacity to retain immediate events and to integrate those events into an ongoing sequence (short-term memory); ability to form an image of a 'cognitive map' (mental imagery); understanding the role of the other person (social cognition); general ability to act in a meaningful way (human intelligence); and the ability to recall quickly from long-term memory specific information that is immediately applicable to the present situation (long-term memory) (Solso et al., 2005).

One role of the board of directors is to make decisions that protect and enhance the company's value (New Zealand Government, 2005). The board's effectiveness may be directly related to individual cognitive and group interaction skills of the directors (Carpenter & Westphal, 2001).

Certainly, groups composed of intelligent members will make more intelligent decisions than will groups of less intelligent persons. Similarly, groups of more capable or more expert members will make more capable or more expert decisions than will less qualified groups. (Ellis & Fisher, 1994, p. 171)

The quality of the board's cognitive outputs may be reflected in the quality of the inputs. Therefore, boards of directors must have sufficient cognitive abilities appropriate to the tasks they are undertaking.

In addition to the analytical cognitive capabilities required of board members, Forbes and Milliken note the importance of cooperation (Wageman, 1995, as cited in Forbes & Milliken, 1999), heedful interrelating (Weick and Roberts, 1993) "smoothness" (Eisenhardt, 1989) and "deftness" (McGrath, 1995, as cited in Forbes & Milliken) needed by directors to work effectively as a group. These capabilities allude to interpersonal skills discussed in the next section.

Emotional intelligence

Directors must "cooperate to exchange information, evaluate the merits of competing alternatives and reach well-reasoned decisions" (Forbes & Milliken, 1999, p. 490).

The ability to work well with others is critical for effective board decision-making (Ward, 2000). The ability to work together requires social intelligence, more recently termed "emotional intelligence" (Goleman, 1995). Social intelligence involves the abilities to perceive people's emotional states, understand how their emotions influence their thinking, understand how emotions may evolve and change, and lastly, how to manage people and relationships by managing one's own and other's emotions (Goleman, 1998; Lopes et al., 2004; Mayer, Salovey, & Caruso, 2004). Emotions are a social form of communication (Parkinson, 1996) and as such understanding the information they convey is critical to understanding the whole message people are expressing.

Like other cognitive intelligences, emotional intelligence (EI) has an important role to play in board success: "Emotional intelligence is a vital aspect of governance." (McGregor, 2000, p. 54). In the 'soft' skills domains such as interpersonal relationships, EI skills may play a larger role than other cognitive abilities (EI Report, 2004). Emotional intelligence may be especially important for boards because of the need for positive, constructive interaction between board members to facilitate a high quality discussion and decision-making process. Leblanc and Gillies (2003) viewed "the most important factor in board process is the inter-relationship among and between directors, which in turn is largely based on the behavioural characteristics of individual directors" (p. 9).

Researchers recommend that for group members to be effective they must:

Pay attention to nonverbal language.... remember, the vast majority of what we hear comes not from the message, but from the nonverbal signals,

including the tone of voice. Gestures, especially hand movements, may reveal feelings and emotional states (Patton et al., 2003, p. 22).

Ever since Daniel Goleman published his first book (1995) on emotional intelligence, claims about EI's predictive ability and counterclaims about its scientific validity have titillated both the public and academic domains. In the decade since the initial popularization of the concept, claims such as EI "mattering twice as much as IQ" and "best predictor of success in life" have now been withdrawn (Goleman, 1995, p. 34; Goleman, 1998, p. 31). However, sufficient research has shown that EI is a distinct type of intelligence that is useful and measurable (Cherniss, 2000; Mayer et al., 2004). Its influence on board relationships and consequently task functioning may be a significant factor in board process and an important concept to explore.

EI is defined as:

The capacity to reason about emotions, and of emotions to enhance thinking. It includes the abilities to accurately perceive emotions, to access and generate emotions to assist thought, to understand emotions and emotional knowledge, and to reflectively regulate emotions to promote emotional and intellectual growth. (Mayer & Salovey, 1997, as cited in Mayer, Salovey & Caruso, 2004, p. 197)

Emotional information "concerns the meaning of emotions, emotional patterns and sequences, the appraisals of relationships they reflect" (p. 209); it "convey[s] regular, discernable meanings about relationships" (Mayer, Salovey, & Caruso, 2002, p. 6), and from the evolutionary viewpoint, "emotions govern, and often signal, motivated responses to situations (Darwin, 1872/1998; Ekman, 2003; Izard, 1993; Spinoza, 1675/1959)" (Mayer et al., 2004, p. 198).

EI works on “hot” emotionally important matters:

We view EI as a member of a class of intelligences including the social, practical, and personal intelligences that we have come to call the *hot* intelligences (Mayer & Mitchell, 1998; Mayer & Salovey, in press). The label refers to the fact that these intelligences operate on hot cognitions – cognitions dealing with matters of personal, emotional importance to the individual (Abelson, 1963; Zajonc, 1980). (Mayer et al., 2004, p. 197)

Other types of intelligences are distinguished by the kinds of information on which they operate, for example, spatial intelligence uses spatial relationships, perceptual-organizational intelligence uses pattern recognition and verbal-propositional intelligence focuses on vocabulary, syntax and textual meaning respectively (Mayer et al., 2004). EI is the “cooperative combination of intelligence and emotion” (Mayer et al., p. 197). It operates on information about emotions using cognitive processes.

Williams and Sternberg (1988) found that interpersonal skills and compatibility among group members was key to understanding why some groups perform better than others when intelligence is held constant: “some groups perform better than others because the characteristics of the group create a state of internal harmony, which results in the maximization of productivity” (Williams & Sternberg, 1988, p. 375). There are several means through which this internal harmony may be created. It requires group members with an adequate level of emotional intelligence who can recognise and address the other members’ emotions, which influences their thinking. Studies have shown that people who score high on emotional intelligence via the Mayer-Salovey-Caruso Emotional Intelligence Test (MSCEIT), are rated higher by their peers on interpersonal facilitation (interpersonal sensitivity, sociability, quality of interaction and contribution to a positive work environment) (Lopes, 2004). In the same study, the high scorers also received higher ratings of stress tolerance and leadership potential. EI is a

non-IQ cognitive ability that in some domains seems to be more highly correlated with a positive outcome than is a measure of IQ. Domains where this can occur are “soft” for example, such as one’s health or marital success, where EI skills such as emotional self-regulation or empathy may be more salient than are purely cognitive abilities (Mayer et al., 2004).

Hall and Williams (1970) postulated, "that group competence in decision-making may be considered to be an extension of the interpersonal competencies of group members" (p. 43). This may be evidenced by group research where one member’s emotions significantly influenced the whole group:

Emotional intelligence has as much to do with knowing when and how to express emotion as it does with controlling it. For instance, consider an experiment that was done at Yale University by Sigdal Barsade (1998; 1998). He had a group of volunteers play the role of managers who come together in a group to allocate bonuses to their subordinates. A trained actor was planted among them. The actor always spoke first. In some groups the actor projected cheerful enthusiasm, in others relaxed warmth, in others depressed sluggishness, and in still others hostile irritability. The results indicated that the actor was able to infect the group with his emotion, and good feelings led to improved cooperation, fairness, and overall group performance. In fact, objective measures indicated that the cheerful groups were better able to distribute the money fairly and in a way that helped the organization. Similar findings come from the field. Bachman (1988) found that the most effective leaders in the US Navy were warmer, more outgoing, emotionally expressive, dramatic and sociable. (Cherniss, 2000)

What is not known is the degree or minimum level of EI skills required within a group for the group to be able to perform effectively. This appears to be true for all skill requirements (business acumen, financial expertise, industry knowledge, IQ, EI, etc.) of the board. There appears to be little research that quantifies the

minimum level of each skill required by individual directors to make the board effective. Perhaps as with IQ research, it is not individual's scores but rather the highest group member's score which predicts group effectiveness (Williams & Sternberg, 1988).

Adequate IQ is necessary to effectively analyse and reason through the task portion of group decision-making. Adequate EI is necessary to deal constructively with the relationship aspects of group decision-making. In studies of relationship versus task, members felt more satisfaction where groups explicitly discuss relationship issues. However, groups that did spend time and effort to maintain or improve relationships, performed less effectively than task-only groups (who ignored relationship issues) (Hackman & Kaplan, 1974, p. 473). Despite this performance disadvantage, which may be an initial short-term effect due to the need for groups to resolve interpersonal issues before being able to move on to work more productively (Schell & Hammer, 1993), once groups have gained the experience of successful conflict resolution, they develop an *adaptiveness benefit* that enhances their task performance "in an unstructured and changing task environment" (Hackman & Kaplan, 1974, p. 478). The environment in which businesses and boards operate has been described as "white water" (Holmes & McGraw, 1994), an analogy of maneuvering through churning rapids, similar to Hackman's "unstructured and changing" conditions suggesting that boards can benefit from the adaptiveness advantage. Relationships mediate the decision-making performance (Gouran et al., 1996). Therefore, it is important that groups have members with adequate EI skills to deal with relationship issues among members.

The emotional management facet of the EI model is positively correlated with social competencies including initiating relationships, providing emotional support, and managing conflicts (Yip & Martin, 2004). These social competencies may be an important aspect of effective board functioning:

"Majority of board members are not consciously aware of their own emotions or the importance of this area. Neither are they aware that their emotional states have significant impact both on the wider group of people they govern, and on the people with whom they directly work" (McGregor, 2000, p. 58)

Researchers contend that task and relational communication functions are inseparable (Fisher, 1974). This contention supports the need for decision-making groups such as the board of directors to "balance emotions with reasoning" and pay attention to board members' emotions which influence their thinking (Cline & Cline, 1979; Fisher & Ury, 1981).

So strongly does Huber (1986) believe in the influence of individual group member's personality and cognitive styles on group decision-making that he openly questions whether any model of group decision-making could account for all these factors as individual differences may be too variable to construct an empirically based normative design model (Huber & McDaniel, 1986). While it is true that many factors influence group decision-making, there are now established means of quantifying many of the cognitive and personality variables (such as psychometric tests of personality preferences, general intelligence and emotional intelligence) that may be required for directors to be effective board participants.

Preferences for procedural order

Some personality preferences of board members can impact their thinking style and may need to be taken into account when boards decide whether to adopt formal decision-making procedures (Putnam, 1979).

Putnam asserts that differences in group members' preference for procedural order (PPO) (a cognitive structure) influences whether structured or free decision-making processes are better. 'Preference for procedural order as a cognitive structure has been defined and

operationalized' (Borman 1975; Putnam, 1979, 1982). (Hirokawa, Ice, & Cook, 1988)

Hirokawa, Ice, and Cook (1988) looked at groups whose members were high in PPO versus low in PPO. They found that those high in PPO made higher quality decisions using reflective thinking whereas those low in PPO made higher quality decisions using free discussion. Their data indicates that high procedural order preference group members work best with a high structure discussion format; those with this preference worked ineffectively with a low structure format. Conversely, low procedural order preference group members worked effectively with either a low or high structure format, although they work more effectively with a low structure format.

Brillhart and Jochem (1964) investigated whether changing the order of the standard reflective thinking procedures would make a difference in decision quality. Their results suggest that changing the order of the steps resulted in little difference to decision quality although study participants reported usage of the standard reflective thinking procedure order to be the least satisfying process.

Low satisfaction with following a procedural order makes it less likely, that groups (or boards) will follow a procedural order even if they utilise a reflective thinking discussion method. Fortunately, research indicates that order is less important than satisfactorily completing each step in the reflective thinking method.

Effort and commitment

Another input factor that makes a difference in group decision-making quality is the amount of effort group members are willing to expend in decision-making (Hirokawa et al., 1992). Group members who make the effort can perform a corrective function of criticising incomplete or biased information, enabling the group to make a more informed choice. Groups are more likely to reach a high-quality decision when they carefully examine and re-examine the information upon

which their decision is based (Hirokawa et al.). To ensure that the information is sound requires that individual members invest the time and effort required to feel confident that all the information that can be gathered has been presented and then interpreted to the best of the group's ability.

Latane, Williams, & Harkins (1979) found that individuals, when working alone, put out greater effort than when working in groups; they termed this effect "social loafing". In further studies, social loafing could be reduced or eliminated when the outputs of individuals were made individually identifiable and comparable to other group members' outputs (Harkins & Jackson, 1985). Harkins theorised that because individuals in a group get neither credit nor blame, they loaf. Individual evaluation may motivate performance in a group situation. The use of director evaluations could be researched to determine whether this annual accountability tool can make directors' contributions identifiable and comparable, reducing or eliminating social loafing from the boardroom.

Additionally, individual group members often have needs or goals such as "enhancing their power or status in the group, catching up on gossip, strengthening relationships with other members, advancing a pet project unrelated to the decision at hand, and political maneuvering" (Poole, 1991, p. 68). These needs are often unconnected to the overt group goals. If individual members' needs are not satisfied, they may withdraw their efforts or even their membership from the group (Mannix, Bazerman, & Thompson, 1989).

Commitment is associated with "member's internalization of group goals – the extent to which the group's goals become the goals of individual members" (Ellis & Fisher, 1994, p. 34). Group identification, feeling a part of the group, is associated with commitment to group goals. Janis (1972) viewed commitment as an effect of the group's *cohesiveness*. Cohesiveness refers to the degree to which members' have high regard for their membership in the group and the degree to which members feel positive about and are thus attracted to other group members.

There is no direct evidence tying the degree of cohesiveness to an objective standard of excellence in decision-making but Shaw (1981) has summarised the indirect evidence:

Hi-cohesive groups are more effective than low-cohesive groups in achieving their goals. The cohesive group does whatever it tries to do better than the noncohesive group..... It follows that group problem-solving should be facilitated by group cohesiveness. Despite some negative findings... Empirical evidence generally supports this expectation. (p. 225)

Membership in a high status group promotes cohesiveness (Olmsted & Hare, 1978). Boards of directors are typically drawn from high status professions and viewed as high status groups. Cohesiveness will be discussed more fully in the groupthink section, 3.9.1.1.

Another variable underlying cohesiveness may be friendship. Groups of close friends solve problems more efficiently than friend-stranger groupings (Olmsted et al., 1978). It is hypothesised that the increased ease of communication is probably a major factor (Hare, 1962) as well as the readiness of individuals to be influenced by, to trust and to respond positively to the actions of friends (Shaw, 1981). Trust will be discussed in the next section.

Trust

Trust was discussed in the governance literature as an important characteristic in board process. Trust can be viewed a type of control mechanism, "a type of expectation that alleviates the fear that one's exchange partner will act opportunistically" (Bradach & Eccles, 1989, p. 104). Erik Erikson (1950) theorised that a trusting or distrusting attitude developed early in life. Julian Rotter (1971, 1980a, 1980b), whose research focused on interpersonal trust, thought it more likely to result from a person's cumulative experiences. Whatever the source, its

presence or absence may be a significant variable contributing to board performance.

Interpersonal trust is an important variable mediating human relationships (Rotter, 1971). For the board this includes relationships between board members, between directors and management, between the chair and CEO, and between the board and external parties (such as other firms).

The trust attitude may be learned (Rotter, 1980): some people are trusting until given reason to suspect they ought not to be, while other people must have sufficient reason to believe their trust would be well-placed before bestowing it; that is, they are initially distrusting until they have experienced trustworthy behaviour from the other party. Rotter (1971, 1980a, 1980b) found that those with the initially trusting attitude were less likely to lie or cheat, be unhappy, conflicted or maladjusted. People who trust more were also found to be more trustworthy, respect the rights of others and give others a second chance. The truster was liked more and sought out as a friend more often than the distrusting person (Rotter, 1980).

Trust between people working together, whether toward the same or dissimilar goals, has advantages for both parties: "Trust is an important lubricant of a social system. It is extremely efficient; it saves people a lot of trouble to have a fair degree of reliance on other people's word" (Arrow, 1974). Trust in boards, between board members and between the board and management, may be necessary to enable directors to be frank and candid about substantive issues, including the trust or lack thereof between the board and the CEO and senior management team.

As trust grows, the fear-barriers that prevent candour and openness drop away. People become more expressive, impulsive, frank, and spontaneous. They say what they think and feel. They express opinions in

brief and clear messages, and with a minimum of preamble and apology. They make it clear how they feel.... With trust, groups learn to gather data quickly and to get out of "datalessness". They are then able to make decisions and to make them more wisely than individuals could by themselves. Groups *can be* marvellous instruments of effectiveness. (Gibb, 1978, p. 173)

Huse (2005) found "openness" to be one of the variables characterising the board cultures in a study of 490 Norwegian firms (2004, cited in Huse 2005). As openness is unlikely to occur without trust, he suggests that "Trust is an important notion ... which needs further explorations" in studying boards of directors, (Huse, 2005, p. S74). Huse' findings seem to reflect the same trust cycle Roberts, McNulty, and Stiles (2005) reported in their research discussed in Chapter 2.

The ability to develop trusting relationships has been identified as a key success factor (Bennis, 1999) in leadership. In boards, trust enables cohesiveness and comfort needed for thoughtful and candid interactions (Forbes & Milliken, 1999; Westphal, 1999). Zand (1972) found that trust was the key factor determining effectiveness in executive group problem solving.

Distrustful relationships tend to cause more conflicts while trusting relationships tend to decrease conflicts (Conrad & Poole, 2005). Trust facilitates collaboration, but too much trust may encourage excessive *cohesion*, which can lead to the dysfunctional decision-making phenomenon, *groupthink* (Janis, 1982b). Groupthink will be discussed in more detail in the process section.

From the management and social psychology perspectives, trust appears to be an important construct in board process. It seems to enable more positive relationship interaction among board members, and between the board and

management, while at the same time it creates an environment that supports effective task completion.

Director ethics

Boards are directed to act in the best interest of the company (Companies Act 1993, S131), which requires them to leverage above self and other competing interests in making decisions that serve best the company. These decisions may have an implicit or explicit ethical dimension: "personal integrity, and its mediation through organizational culture, is one of the vital ingredients of what is normatively conceived as the business policy role of the board (Garrett, 1996; Tricker, 1980); the standards that the board set not only for its own conduct, but also for the treatment of employees and other stakeholders" (Roberts, 2001, p. 1562).

The board is often referred to as the conscience of the corporation, reflecting the need for identifying the part of the organisation responsible for making decisions and ensuring that the corporation meets society's expectations for socially responsible behaviour.

The ethical role of directors is critical. Directors have overall responsibility for the ethics and compliance programs of the corporation. The tone at the top that they set by example in action is central to the overall ethical environment of their firms. (Schwartz, Dunfee, & Kline, 2005, p. 79)

While there may be many calls for the board to act ethically, there has been no research to reveal whether individual directors and the board need any minimum levels of "moral development", the psychological construct believed to underpin ethical behaviour (Rest, 1980), to carry out their role. Ethical standards may be clearest where the board or at least the majority of the board is constituted by people who have worked together in an organisational culture that emphasises adherence to its values (Collier & Roberts, 2001). Understanding what level of moral development the board has developed and how much individual directors'

moral development levels contribute to the board's ethics may be an area for furthering understanding of the effectiveness of board decision-making. Kohlberg's (1984) model of moral judgements and processes has been used to develop a psychometric test that quantifies moral reasoning and ethical decision-making in individuals (Rest, 1974; Rest, Cooper, Coder, Masanz, & Anderson, 1974). Director selection and board evaluation initiatives might benefit from using such a tool to better inform director selection and board development needs.

3.7 Constraints: Individual and Relationship Factors

Proponents of the functional perspective have acknowledged that social and environmental influences may interfere with members' ability to satisfy the task requirements essential to effective decision-making (Gouran & Hirokawa, 1986). Janis (1989) identified three such negative influences that he termed 'constraints' on group decision-making: cognitive, egocentric and affiliative. Whereas all three constraints may be present as inputs to the process, their expression may significantly influence the process, making them both input and process factors.

Cognitive constraints relate to perceptions of the adequacy of or perceived deficiencies of resources (e.g., information, time, skills necessary for performing the task) available to the group for making decisions or finding solutions to problems (Gouran & Hirokawa, 1996). Cognitive constraints are encountered when a group is asked to make a decision with inadequate time, information or cognitive resources. When this happens, according to Janis, group members may compare the situation to one they have experienced with some similar characteristics, ignoring what may be significant differences and thus failing to properly understand the problem which will likely result in an inadequate outcome. Another defective strategy to deal with cognitive constraints involves resorting to standard operating procedures when the group feels unable to adequately address the problem (Janis, 1989).

Affiliative constraints arise from concern to avoid impairing relationships between group members, where protection of relationships and the well-being of the group diverts the focus of inquiry from making the best choice to maintaining group harmony (Gouran & Hirokawa, 1996). Affiliative constraints are evidenced by behaviors similar to those observed when there is excessive group cohesion, namely direct pressure to conform to group views and/or self-censorship of one's own views when they are in known conflict with the group's views (Harvey, 1974; Janis, 1989).

Egocentric constraints result from a group member's need for control or other ego-gratification behaviors (Gouran & Hirokawa, 1996). Members under the influence of egocentric constraints may have a win-lose orientation, which can lead them to push for acceptance of their preferences using imbalanced criticisms of alternatives and exaggeration of advantages of their preferred solutions. Egocentric behaviours can create conflicts which affiliative constraints may then limit resolutions to acquiescence.

Individually or combined, cognitive, egocentric and affiliative constraints can derail effective decision-making. It is incumbent on group members and especially the leader to be able to recognise these constraints when they occur and to have the skills to neutralise or overcome them.

3.8 Summary of Task and Relationship Input Factors

Table 3.3 presents a summary of the task and relational input factors that the literature indicates may mediate board decision-making process.

Table 3.3: Task and Relationship Input Factors

Task Factors	
Structure	structure (goals, roles, planning, operating procedures, decision criteria)
	task type and structure
	task evaluation demands
Process	decision rules
Communication	information requirements
Relationship Factors	
Relationships	trust
Emotions	cognitive skills and knowledge, IQ
Member Attributes	emotional intelligence
	effort & commitment
	preference for procedural order
	emotions
	ethics
	constraints: affiliative, egocentric and cognitive

Like the three cognitive constraints (affiliative, egocentric and cognitive) that were classified as relational input factors, many of the other moderator variables are inputs in origin but may be expressed and encountered during board process.

Johnson (2002) summarised (see Table 3.4) the potential "mismatch between who is on the board, what is needed on the board and how the board is to operate" (p. 21).

Table 3.4: The Potential Gap Between Who is on the Board and What Boards Need

Who is on the board?	What do boards need?	What is the board environment like?
Can be from a certain demographic grouping not used to diversity	Cognitive diversity in order to develop more effect strategy	Increasingly pressured from outside and inside the organization to perform well
Can be individuals who have not risen to the top by virtue of their team like skills	Individuals who are able to work well alongside others.	Increasingly expert and relationally oriented.
Can be narcissistic and closed to challenge	Individuals who are more open to the appreciation of another's view	High risk, high isolation and potentially high stress
Individuals who are faced with challenges of identity, from friendly colleague to vigilant monitor	Individuals who are emotionally skilled in coping with conflicting yet simultaneously present demands	A vulnerable group, just like another but with much bigger consequences

From Johnson, 2002, p. 21.

Johnson's (2002) table highlights rather dramatically the need to identify the attributes that directors need to bring to the boardroom with a view toward quantifying how much of each attribute may be necessary to achieve effective board decision-making.

The next section looks at task and relationship process variables relevant to the board decision-making process.

3.9 Process Factors

3.9.1 Relational Process Variables

Groupthink: a dysfunctional process

In 1972, Irving Janis published *Victims of Groupthink*, a study of foreign policy fiascoes resulting from poor decision-making processes. Janis analysed historical decisions that resulted in policy disasters and one additional case, the Cuban missile crisis, which he believed served as an example of a good decision-making process.

Janis coined the term *groupthink* to describe the process of defective decision-making that could lead to poor quality and even disastrous decisions. Janis describes groupthink as:

A mode of thinking that people engage in when they are deeply involved in a cohesive in-group, when the members' striving for unanimity override their motivation to realistically appraise alternative courses of action... the deterioration of mental efficiency, reality testing and moral judgment that results from in-group pressures. (Janis, 1972, p. 9)

Groupthink can happen when group members avoid conflict within the group through failure to adequately criticise and evaluate potential solutions. The group arrives at a consensus but it has sacrificed the decision-making process (task) in favour of preserving relationships, which might be threatened by conflict (for example disagreeing with the group consensus). Although groupthink is a process and as such must be considered as a process mediator of decision-making, the antecedents that lead to it include inputs such as the group norms.

... groupthink is not simply a matter of fixed attributes of a group, nor is it a question of the types of personalities that happened to be dominant within the group. If the same committee members show groupthink in making decisions at one time and not at another, the determining factors must lie in the circumstances of their deliberations, not in the fixed attributes of the individuals who make up the group. The determining factors seem to be variables that can be changed and lead to more and productive norms... (Janis, 1983, p. 158)

Janis and Mann (1977) identified seven defective decision-making processes that could lead to faulty decision-making: (a) not considering a sufficient number of options or alternatives, (b) insufficiently discussing the objectives such that important values are not taken into consideration, (c) not considering the consequences of the preferred solution, (d) not obtaining sufficient information to critically evaluate pros and cons of the preferred solution, (e) not resolving non-supporting or conflicting information or examining biases for a particular solution, (f) not reconsidering the costs and benefits of rejected solutions, and (g) not developing implementation or contingency plans. Adopting rational decision-making procedures can counter or prevent these defective processes. For example, in their case study of the jury deliberations in the trial of *U.S. versus John DeLorean*, Neck and Moorhead (1992) argue that the "presence of methodical decision-making procedures such as parliamentary procedure, alternative examination procedure and information search procedure" (p. 550) served to prevent the occurrence of groupthink. "One key method for avoiding

groupthink is to develop effective decision-making norms in the team" (Moorhead, Neck, & West, 1998, p. 345). Conceivably, board of directors could also use methodical decision-making procedures and develop effective decision-making norms to prevent groupthink

Janis (1972) did not make any links between specific antecedent conditions and resulting groupthink symptoms, or as Neck and Moorhead (1995) observed, "all the antecedent conditions led to all the groupthink symptoms" (p. 547). This failure to link specific antecedents with specific groupthink symptoms makes the groupthink theory difficult to test. However, sufficient research has been done through case studies (Moorhead & Neck, 1991; Neck & Moorhead, 1992; Raven, 1998; Hensley & Griffin, 1986), laboratory or field tests of various aspects of the model (Callaway et al., 1984; Callaway, Marriott, & Esser, 1985; Courtright, 1978; Flowers, 1977; Leana, 1985; Moorhead & Montanari, 1986) and additional variables to the groupthink model to explain its occurrence (Neck et al., 1995; Turner & Pratkanis, 1994) and provide support for the theory. Vigilance, described in section 3.9.3, is a strategy recommended for avoiding groupthink.

Group cohesion

Maslow (1954) observed that the need for "belonging" was fundamental to humans. This need can motivate people to rise above their self-interest and serve the 'greater good' in this instance, the goals of the group. However, Janis (1982) observed that members might come to value their belonging to the group so much, that they will devalue their independent thinking when it is in conflict with the views of the group. Janis (1982) identified this as a "concurrency-seeking tendency", group cohesion, where group members who find themselves at odds with the known position of the group, override their own judgment in favor of group conformity and unanimity (Janis, 1972). Fear of rejection and overemphasis on maintaining group cohesion and unanimity can lead to groupthink.

In Janis' theory, group cohesion is an antecedent to groupthink. Kurt Lewin (1952) applied principles from quantum physics to try to explain group behavior. In his field theory, Lewin argues that group cohesion needs to be created and sustained for its positive effects of increasing member's participation and commitment to the group. Lewin also emphasized the need for objective evaluation of alternatives, extensive data gathering, and use of objective criteria, elements of rational decision-making procedures.

Subsequent research indicated that both the quantity and quality of group interactions relate to group cohesion (Lott & Lott, 1961; Moran, 1966) and that cohesive groups were more productive, satisfied with their outputs and had a greater desire to work together (Exline, 1957; Schacter, Ellertson & Gregory, 1951). Studies have shown the potentially positive benefits of group cohesion which included more sharing of information and less self-censorship of unshared information (Leana, 1985) which may improve decision-making quality.

Another groupthink study found that highly cohesive groups made poor quality decisions without adequate decision procedures to counteract their concurrence seeking tendencies (Callaway et al., 1984). Callaway and Esser's groupthink study (1984) found that inadequate decision procedures lead to poor decisions in highly cohesive groups. Cohesiveness was operationalised by telling subjects they were members of a "select, congenial, effective" group or by saying group members had "meaningful incompatibilities" (p. 159). The two by two study focused on cohesiveness and problem solving procedures. Some groups were given no procedures while others were. The procedures were read aloud and given out in written form to the groups; no training in use of the procedures was offered. Highly cohesive groups were more confident and had the fewest disagreements, as there was minimal critical inquiry. Highly cohesive groups without adequate decision-making procedures made poorer decisions. Leana (1985) found that groups high in cohesiveness had greater information gathering

vigilance than did non-cohesive groups. This may indicate that groups go through various stages of development much as other living beings (Musselwhite, 1982).

Cohesiveness is a property or characteristic of "the group" and yet "the group" as a distinct entity is a theoretical construct whose attempts at scientific measurement have focused on the individuals (e.g., the tangible parts the group). Researchers have aggregated data on individuals and drawn conclusions about group-level phenomenon. The literature is full of studies focusing on groups and cohesion (Barry, 1997; Cota et al., 1995; Levine, 1990; Moorhead, 1998; Nordqvist, 2005; Paulus, 1998; Rozell, 2003; Turner, 1992; Witteman, 1991). However, the definitions of cohesion differ significantly as do measurement methods, effects on the group and its members, as well as group performance (Mudrack, 1989). The group cohesiveness construct has thus far proven to be indefinable. There is general agreement as to what cohesiveness represents, but there is incredible variety and indiscriminate usage of definitions in research (Mudrack, 1989, p. 44). The group cohesiveness construct has not achieved a precise definition, consistent measurement or standard experimental manipulation (Mudrack, 1989).

Building sufficient cohesion within a board to get the benefits of increased productivity, satisfaction, sharing and decreased self-censorship (Lewin, 1952; Lott & Lott, 1961; Maslow, 1954; Moran, 1966) may be the aim of imploring directors to look for opportunities to learn more about fellow board members: "The better you get to know and understand about other people on the board, to develop chemistry, the more effective you'll be as a total board" (Finkelstein et al., 2003, p. 110). However, as directors and executives build stronger social ties and mutual trust, information gathering and processing efforts may be sacrificed. Under these conditions, pressures toward cohesion may increase resulting in directors and/or executives acting as *mind guards*: withholding information or views that conflict with the known views of the majority, and exerting pressure on those whose opinions contradict the majority, thus protecting the board from information contrary to its beliefs (Janis, 1982a). The recommended countermeasure is

vigilance. But, vigilance, the anti-dote to excessive cohesion, does not naturally take place to the degree required unless it is imposed on or adopted by the group, usually through formal decision-making procedures (Hirokawa, 1987). Therefore, the formal adoption of vigilance techniques by the board may have a positive impact on board decision-making performance.

Leadership

The pivotal importance of board leadership is especially emphasised in the role of the chair, described as "vital to the board members' engagement in various ways"; it sets the culture of the board (Roberts, McNulty, & Stiles, 2005). Yet little research attention has been given to systematically exploring behavioural consequences of board leadership (Huse, 2005).

Leadership for the board may be viewed as facilitating problem-solving and decision-making aimed at board or organisational goal attainment (Fleishman et al., 1991). There are many approaches to viewing leadership: emergent, trait, situational, charismatic and transformative leadership to name but a few (Fleishman et al., 1991). A commonly accepted model of leadership behaviors and the causal variables that influence the demonstration and perception of leadership has not yet been determined. Nevertheless, research into the influence of the leader's behavior on group decision-making has found significant differences in quality of group decision-making when the leader acted primarily *directive* or *participative* as noted by Janis (1977).

Neck and Moorhead (1995) used 'closed' interchangeably with 'directive' and proposed that "closed leadership style and methodical decision-making procedures" were the moderating variables, which explained why groupthink may, or may not occur within the same group in different decision-making situations. Neck and Moorhead defined a moderator variable as one "that affects the direction and/or strength of the relation between an independent variable and a dependent variable (Baron & Kenney, 1986)". They emphasised that their model "does not

suggest that closed leadership style behaviors and methodical decision-making procedures cause the presence of groupthink symptoms and thus defective decision-making, but, rather these behaviors moderate the relationship between antecedent conditions and groupthink symptoms" (p. 549). The leadership style behaviors exhibited by the group leader did not create but, in fact, facilitated or counteracted "the concurrence seeking and closed inquiry pressures existing within the decision-making group that displays groupthink antecedent conditions" (p. 551). They described closed leadership style behaviors as: "(1) does not encourage member participation, (2) does state his\her opinions at the beginning of the meeting, (3) does not encourage divergent opinions from all group members, and (4) does not emphasize the importance of reaching a wise decision" (p. 550).

Flowers (1977) found that groups whose leaders used a directive leadership style "suggested fewer solutions, used fewer outside sources of information, and used less information before a decision and more information after the decision in justification" (cited in Callaway et al., 1984, p. 158) than groups whose leader displayed an open leadership style. Further testing the groupthink model, Leana (1985) found that leadership behavior, not group cohesiveness, determined solution generation and adoption. Groups with a directive leader generated and discussed significantly fewer solutions than did groups with a non-directive leader. Groups with a directive leader were more likely to adopt the leader's expressed solution preference when the leader expressed a preference early in the discussion.

Participative leaders were more likely to encourage information surfacing and sharing whereas directive leaders were more active in using information once it was made available to the group (Larson et al., 1998). Directive leaders repeated unshared information whether it was originally held by them or other group members (Larson, Foster-Fishman, & Franz, 1998). Participative leaders discussed more information (both shared and unshared) than directive ones but

directive leaders repeated information (especially unshared) more than participative leaders did (Larson et al., 1998).

Skill in the generation, resolution and control of conflict appears to be another attribute of effective board leaders:

A leader with skill in the use of disagreement can: (a) turn it into constructive channels if it becomes interpersonal; (b) generate it when it doesn't exist; and (c) give minority views a chance to be heard if unofficial leaders dominate (Maier, 1963; Maier & Solem, 1952). (Maier & Thurber, 1969, p. 248)

Conflict can improve decision-making by requiring innovative problem solving in the presence of what may seem to be obvious solutions (Maier et al., 1969).

By studying failed strategies, Finklestein (2005) found “how the flawed preferences of key leaders derailed their competitive strategies” (Finkelstein, 2005, p. 26).

Personal biases are part of the human condition. Formal decision-making procedures can help counter a chair's tendency toward directive or closed leadership through establishing robust problem analysis, solution generation and evaluation methods as well as productive decision-making rules. Leadership responsibilities have been categorised into two main functions: (1) objective task accomplishment and (2) facilitation of group interaction (Fleishman et al., 1991). Use of formal decision-making procedures aid in objective task accomplishment while meeting and decision rules, social and facilitation skills aid in promoting and maintaining good group dynamics.

3.9.2 Task-Related Process Variables

Structure

Group structure includes preparation, organisation, goals, roles and responsibilities. It may be an input if the goals, roles, etc. are already determined before the group begins its work or structuring may be a process done by the group. This initial aspect of group structuring is commonly referred to as establishment of operating procedures, the initial planning that informs everyone in the group how the group will proceed to achieve its goal. It may be formally recorded in a "terms of reference" document that spells out the group's purpose, scope and authority. These expectations can form the basis of the board's self-evaluation criteria.

Expectations need to be clear about the board's basic operating procedures. For example, effective teams define and reach agreement on how they will go about doing their work. They decide how agendas will be set, who will take the lead on specific issues, how decisions will be made on key issues and how information will be gathered and shared at the board level. These operating procedures need to be agreed on by all members of the board and stated in such a way that it is possible to assess whether the level of adherence. (Conger et al., 2001, p. 29)

In a study by Hackman and Kaplan (1974), groups who planned spent 1/7 of the total work time planning while the other groups had already begun producing task results (assembling components). However, the groups that spent time planning had superior performances; their rate of performance exceeded that of the other group's once the actual assembling of components began. Deciding what the goal is, what needs to be done, who will do what by what time deadline, what resources need to be used to gather the information and identifying the resources necessary to carry out the group's task before the group concludes its decision-making

improves the group's performance (Hackman et al., 1974). This was especially true when the task required coordination due to unequal or unshared information distribution between group members. Planning how to reach the goal improves performance (Hackman et al., 1974). This finding directly supports planning and indirectly supports adopting a procedural order, which puts planning as the first step.

Successful groups are more likely to begin by analysing the problem before attempting to search for a viable solution; unsuccessful groups tend to begin the discussion by immediately attempting to search for a viable solution to the problem before analysing the problem (Hirokawa, 1983). Numerous researchers (Maier, 1970; Hackman & Kaplan, 1974; Shure et al., 1962; March & Simon, 1958) have found that groups prefer to go straight to the solution phase, without analysing the problem or engaging in problem planning, even when they have a planning period scheduled, or have invested time developing a plan for their discussion. Once the discussion begins, members tend to ignore the plan and jump straight to choosing the solution. This finding further supports the adoption of procedural order in decision-making to avoid overlooking both planning and problem analysis.

Shure et al. (1962) looked at whether groups under time pressure to complete a task would, like an individual, focus upon immediate events and shorter-range achievements at the expense of ultimately greater efficiency derivable from extra task planning. They told group members that it was to their advantage to plan before starting on the task and they gave the same total time to the groups with no designated planning period as the groups with the designated planning period. The majority of groups (without the designated planning period) did not take the time to plan or strategise before beginning the group task. The groups provided with separate planning time were more efficient than groups not given the separate planning time. This would seem to indicate that if the board of directors don't set aside time to plan, they will perform less effectively on their tasks that require coordination of effort.

Time pressures

After studying the U.S. governments' Vietnam policy-making, Janis (1982) proposed that pressure on group members due to time constraints was one of a number of antecedents to faulty decision-making. Moorhead et al. (1991) reached the same conclusion after studying the decision-making that led to the ill-fated Challenger launch. In laboratory tests, groups working under greater time constraints produced inferior quality products compared to groups with greater time allowances (Kelly & McGrath, 1985). Researchers ascribed the poorer results to the group having had less time for interpersonal discussion resulting in (a) greater stress, (b) less satisfaction with the result (than groups with more time) and (c) a perception by group members that the task was more difficult.

Isenberg (1981) found that time pressures impacted negatively on the distribution of "air-time", resulting in a few members taking more of the discussion time available and less time for other group members to interact. Strategies to counter the effects of time pressures are offered by Janis' vigilance theory discussed next.

3.9.3 Vigilance Theory

The continued appeal of the groupthink theory stems in part from its sister theory-vigilance theory, which is supported by empirical evidence as making a positive difference to group decision-making (Schultz et al., 1995). Vigilance theory asserts that using rational problem solving methodology reduces the likelihood that a group will succumb to defective decision-making processes. Schultz et al. (1995) maintains, "Vigilance implies continuously attending to group process by asking critical questions pertaining to dimensions of effective decision behavior (p. 527)".

Janis (1982) found that *vigilance* could improve group decision-making. He, and other researchers, postulated that group interaction affects the decision process and consequently the resulting decision (Gouran & Hirokawa, 1986; Hirokawa & Rost, 1992; Hirokawa & Scheerhorn, 1986; Janis & Mann, 1977). Being vigilant involves consciously avoiding detrimental behaviors such as: (a) conformity through suppression of conflict and creativity, (b) dominance and bullying of deviants, (c) withdrawal, (d) uncommitted compliance, and (e) other self-effacing and self-protecting behaviors.

In highly collaborative settings, firm identification increases, and directors and management may seek to become a cohesive "governing team." Yet as the board and management focus on corporate decision-making and goal alignment, they should also accentuate the simultaneous need to systematically monitor and critique their efforts to avoid *groupthink*.

Vigilance balanced with a collaborative approach may help to avoid the perils of groupthink while building trust between board members and the board and management (Lewis, 2000; Poole & van de Ven, 1989). It is increasingly common practice for boards to solicit help from outside experts to enrich decision-making, a vigilance method recommended by Janis (1977) to avoid groupthink (Finkelstein et al., 2003). Using outside experts as devil's advocates is another recommended vigilance method (Finkelstein et al., 2003; Janis, 1972) that diminishes the potential for conflict between group members while embracing the challenging of a group's thinking.

3.9.4 Post Decision Evaluation and Learning

The board of directors ought to be at the forefront of strategic change in the organisation. They decide whether to embark on mergers, acquisitions, takeovers, strategies and other organisationally significant initiatives. Industries with rapid change are reported to be shifting their control form from hierarchical to flexible

network structures and using formal project management techniques to achieve their business objectives (Smith & Dodds, 1997). Boards of directors are reported to use the project-oriented management approach combined with *balanced scorecard* reporting to monitor implementation and maintain oversight of the company's progress against its strategic goals (Lees, 2005). One of the strengths of the project management approach is the requirement for a close-out report which usually includes an evaluation of the project implementation against the project plan and objectives which yields recommendations and learnings for future activities (Smith et al., 1997). These learnings may result in changes in procedures, thinking and behaviour: "The dynamism of actual board behaviour and corporate governance is rooted in various learning and influencing loops (Sundaramurthy & Lewis, 2003)" (Huse, 2055, p. S69). The extent to which a board engages in learning and development activities may be reflected in future decision-making effectiveness.

The input and process factors discussed are listed in the following table. Although the factors are listed as input or process, task or relationship, many of the factors are both input and process, and task and relationship mediators.

Table 3.5: Summary of Decision-Making Input and Process Factors

	Inputs	Processes
Task Factors		
STRUCTURE	Structure: goals, roles, planning, SOPs Task Type: structure, task evaluation demands Time pressure Meeting rules Decision rules	Vigilance
PROCESS	Decision-making procedures	Structured vs. Natural discussion Vigilance Leadership Time pressure
COMMUNICATION	Information requirements Learnings from prior decisions	Communication (information sharing & discussion) Post-decision evaluation & learning
Relationship Factors		
RELATIONSHIPS	trust, homogeneity, norms, culture, cohesiveness	Groupthink, group cohesion
EMOTIONS		
MEMBER ATTRIBUTES	IQ, EI, industry & business knowledge, skills & preferences, commitment, effort, preference for procedural order	
Constraints	Cognitive, affiliative, egocentric	Constraint behaviors and counter measures

3.10 Prescriptive vs. Descriptive Process

The *prescriptive* approach is a variation of the rational approach. This section describes the research focused on the prescriptive approach and an alternative approach, the descriptive model of decision-making. Prescriptive procedures require the group to follow a predetermined set of steps or tasks. A prescriptive approach is based on an ideal process and implies a “best way” to make decisions. Advantages and disadvantages of the prescriptive approach and descriptive approaches are discussed here to gain understanding of why they are not recommended to guide board decision-making process.

Advocates of *descriptive* models of decision-making take issue with rational and other normative approaches, arguing that the descriptive or natural approach is a “truer description of the actual process of human reasoning in groups. The virtue of this approach is that it presents an actual rather than an idealized description” (Scheidel & Crowell, 1964, p. 140).

Additional criticisms of the prescriptive approach include that:

1. It can stifle creativity,
2. It assumes group members will act rationally and unemotionally,
3. There is conflicting evidence about when it is appropriate for a group to use the prescriptive approach, and
4. Procedures can take more time (Ellis et al., 1994; Nemiroff et al., 1975; Poole, 1991).

Scheidel and Crowell (1964) describe the spiral model of idea development affirmed by others (Poole and Roth, 1989; Fisher, 1970). The reach-testing or spiral model is a group decision process whereby new ideas are introduced from an anchored position of group agreement. Group members then test the idea and may accept, reject, extend or revise it. This extension/revision process continues

until the idea is accepted or rejected and another idea is introduced to the process. Scheidel and Crowell observed this pattern of constant backtracking and reach-testing of ideas until the idea develops into something all group members can support (consensus). Fisher and Berg (1967) found that groups have extremely brief attention spans (57 seconds in Berg's research), which may account for the to-and-froing between concepts noted by Scheidel and Crowell.

Pavitt (Fall 1992) looked at people's conceptions of ideal group discussion procedures and found people have personal preferences for reach-testing (the group reaches out to a new proposition, tests it and cycles through another reach for more data to test, etc.), linear processing (three linearly ordered phases that resemble an abbreviated reflective thinking model) and combinations of the two. Pavitt (1993) proposed that a blend of reflective thinking and reach-testing should be tested to see if a group could gain the benefits of reflective thinking and yet approximate more natural discussion, which may be preferred by group members. After analysing the problem and coming up with criteria, group members would cycle through reach-testing. After each solution is proposed, it would be clarified and evaluated against criteria then the group would propose another solution, evaluate it and so forth.

Despite the 'virtue' of descriptive or natural models and Pavitt's (1993) claims that "there is no firm basis for recommendations to practitioners concerning the use of formal discussion procedures for guiding real world groups in their decision-making" (p. 231), the overwhelming majority of research has found that structured or formal procedures improve the quality of decision outputs. Methodologies which guide the group to analyse the problem systematically have resulted in more effective problem solving discussions than those groups which were not guided through a predetermined sequence of steps or functions but were allowed to engage in what is described as 'free', 'natural' or 'unstructured' group decision-making (Bayless, 1967; Brillhart & Jochem, 1964; Gouran & Hirokawa, 1986; Hackman et al., 1974; Larson, 1969; Maier & Maier, 1957; Nemiroff et al., 1975;

Schultz, Ketrow, & Urban, 1995; Van de Ven, 1974). It can be concluded that groups that use structured procedures typically outperform groups that do not. Poole (1991) identified eight reasons why procedures improve group decision-making:

1. Procedures coordinate members thinking; members are encouraged to focus on the same activity (i.e., generating options, agreeing criteria for an ideal solution, etc.) at the same time.
2. Procedures prevent counterproductive group behaviors (e.g., brainstorming prevents criticism of ideas, and encourages and supports creative thinking; standing orders permit only one topic at a time to be discussed. Vigilance theory helps ensure greater evaluation of the negative consequences of proposed solutions; unstructured discussion fails to elicit unshared information which is most likely to occur when the unshared information is in conflict with the known group consensus and could counter the final decision (Stasser et al., 1985).
3. Procedures balance member participation, avoiding the problem of a few members dominating the discussion and others not sharing their views/information (Bales et al., 1951). Meeting rules can limit the number of times each member can speak.
4. Procedures help groups deal more successfully with conflicts by surfacing them (such as critical evaluators recommended by Janis). For example, in functional procedures, the group must agree objective criteria for an acceptable or ideal solution. Using these criteria to evaluate whether a proposed solution is acceptable keeps the conflict on the substance instead of allowing it to be personalized by one member's criticizing another member's views. In the same way, members can enforce agreed ground rules and procedures without being accused of attacking another group member.
5. Procedures give groups a sense of progress and direction; at each step or stage, members know how far they have come and what remains to be done; Van de Ven (1974) found higher levels of task closure in groups with procedures than groups with no-procedures.

6. Procedures give groups a basis for self-evaluation, which can help improve the groups' future performance; procedures give a process standard that members can hold one another accountable to; they can make explicit the group's expectations.

7. Procedures give members a feeling of empowerment knowing they are not at the mercy of the 'whims and prejudices of powerful members" (Pavitt, 1990, p. 432); adopted rules and procedures become the basis for correcting and redirecting members discussion;

8. Procedures can counteract complacency by forcing group members away from natural discussion, making them exert more effort due to the greater difficulty inherent in following a structured procedure.

The advantages Poole (1991) describes for using some form of procedures, instead of natural discussion, can be obtained by using any of the rational procedure methods (Ellis & Fisher, 1994).

While there is much to recommend prescriptive procedures, there is also some evidence to suggest that prescribing the order or sequence of procedures that a group is to follow may not improve group problem-solving (Dewey, 1933; Hirokawa & Ice, 1983; Hirokawa & Sum 1983; Poole, 1981; White, 1972). Hirokawa (1985) found that adequately performing the required tasks or functions (e.g., agreeing criteria for an ideal solution, evaluating positive and negative qualities of options, etc.) was more important than following procedural order.

It would be a mistake for you to assume that by simply going through a set of steps a group will automatically make a good decision. What happens at each stage and how well necessary functions are executed are the real determinants of success. (Gouran, 1982, p. 30)

Hirokawa and Gouran make the point that merely following set procedures is insufficient; each task within the procedure must be performed adequately. However, it would be difficult to adequately satisfy a task, such as evaluate the positive and negative consequences of each alternative, if alternatives had not

already been generated or the problem adequately defined. Satisfaction of all the tasks can only be achieved if task outputs necessary for subsequent tasks are completed. For example, without having defined the problem, it would be fruitless to generate options or agree criteria for a good solution.

Coordinating individual efforts to reach the collective potential has always required setting aside natural impulses to learn to work in ways that improve the outputs of the whole. While both linear and reach-testing views of decision-making have found some support (Fisher, 1974; Scheidel et al., 1964), the majority of research shows that following procedures enables groups to outperform those who do not (Hackman et al., 1974; Larson, 1969; Maier, 1970; Nemiroff et al., 1975; Schweiger, Rechner, & Sandberg, 1989; Van de Ven, 1974; White & Dittrich, 1980). Using rational procedures and performing each task adequately appears to be the best method for improving effective decision-making.

3.11 Resistance to Using Decision-Making Procedures

Despite evidence that using some form of decision-making procedure results in better performance and greater member satisfaction, few groups choose to adopt and apply them. Poole and DeSanctis (1990) found that the majority of groups did not follow the recommended procedures. Poole (1991) remarks that, "if procedures seem too difficult or time-consuming, some groups abandon it midstream... They must be encouraged or sanctioned to use them properly" (p. 66). Hirokawa (1987) studied naturally occurring vigilance in group decision-making performance. He concluded that vigilance would not take place to the required degree unless the formal process imposed it upon the group.

Poole (1991) sums it up as follows:

In a nutshell, procedures improve group performance because they make groups uncomfortable. Procedures counteract sloppy thinking and ineffective work habits, which are part and parcel of everyday group

interaction. Because they go against the grain, procedures are "unnatural" and, hence, uncomfortable for groups (p. 66).

Pavitt (1993) suggests that applying the constraints of formal decision-making "may lead to unnatural group discussion" (p. 223). Groups, it seems, are expected to choose between more effective group decision-making using "unnatural" and possibly uncomfortable procedures and less effective decision-making using "natural" discussion. While ease of use is important when deciding how to guide group decision-making, certainly the procedures or process that promises the highest quality decision should be given the highest priority in spite of any unharmed discomfort or extra effort required. Perhaps encouraging usage of good decision-making procedures must be seen in the same light as encouraging people to do other activities that are beneficial, like exercise: the more one does it, the more practiced and comfortable one becomes. Ways to encourage group members (specifically directors) to persevere with decision-making procedures are needed as usage and practice would undoubtedly reduce or eliminate the discomfort of the activities while simultaneously improving the process and likelihood of a good output. Training in functional procedures and the use a *reminder* are two methods that may encourage boards to use formal decision-making procedures. These methods are discussed in the following two sections.

3.11.1 *The Reminder*

Decision makers must not only possess the relevant knowledge and decision-making skills, but must also apply them (Gouran & Hendrick, 1989). Research indicates that groups may not naturally apply rational procedures even when they have been told it will improve their outputs. Finding ways to get groups (such as board of directors) to use effective decision-making procedures, however 'unnatural' they feel, may improve their group processes and resulting outputs.

Schultz et al. (1995) found that employing a *reminder* role, someone designated to encourage the group to fulfill the requisite tasks or functions, positively and significantly influences higher quality decision-making. The *reminder* role imposes the rational procedures without interrupting group interaction (Frey, 1999). The strength of the use of a *reminder* is that it focuses group members' attention directly on the requisite functions or processes, which may lead to more effective decision-making: greater consideration of the quality of evidence, the reasoning process, the validity and application of criteria for selecting an ideal solution, etc. Schultz et al. (1995) gave credit to Janis (1982) for suggesting that "The most effective performers... are likely to be those who can be truly devilish by raising new issues in a conventional, low-key style, asking such questions as, 'Haven't we perhaps overlooked...?' ' Shouldn't we give some thought to...'" (p. 268).

Establishing the role of *reminder* may provide a means to increase board effectiveness: "By raising questions in a non-aggressive style, the *reminder* helps a group counter act such dysfunctional patterns as faulty information processing, faulty assumptions, faulty evaluation of alternatives, and the undue influence of particular group members" (Schultz et al., 1995, p. 537). This approach to produce better decision-making could be used to improve boards' adherence to functional procedures.

Conventionally, it is the role of the chair to attend to the board process and be responsible for aiding the group to make effective decisions. Extant literature points to the leader as the most influential member of the group (Schultz, 1982). However, as Fisher (1986) points out, direct attempts by the leader to influence the group are symptomatic of ineffective leadership.

Schultz et al. (1985) considered this when studying the role of the *reminder* and assigned it to group leaders in some groups and non-leaders in others. The non-leader *reminder* groups made significantly higher quality decisions than did the groups whose leader also served as the *reminder*. The explanation offered was

that leaders could not carry out both roles: leader and *reminder*. Leaders may have attempted influencing the group, which Fisher (1986) has pointed out may result in their contributions being discounted, or perhaps leaders were less willing to perform *reminder* functions or less able to do the *reminder* function effectively. Assigning the role of *reminder* to a non-leader appears to result in more effective imposition of the rational decision-making procedures, which should produce a better process and subsequently, better decision quality.

3.11.2 Training in Procedures

Pavitt (1993) emphasizes the need for adequate training and practice for researching the validity of using formal procedures. While "it is a commonly observed phenomenon that one's participation in a training program frequently results in a mild euphoria which is accompanied by heightened motivation and increased attraction to one's group" (Hall & Williams, 1970, p. 65), there is sufficient research to demonstrate that training does more than enhance motivation and group attraction. Research on senior management teams (SMTs) supports the advantage of training group members as those managers who received cognitive based training were less likely to evidence groupthink in decision-making situations (Manz & Neck, 1995; Moorhead et al., 1991; Neck & Manz, 1994). Evidence from early studies (cited in Hill, 1982) demonstrates that groups benefited from training in problem solving and group process. Schultz et al. (1995) found that groups trained in rational problem solving processes made higher quality decisions than untrained groups. Several studies show that groups receiving training to promote consensual resolution of conflicts produce better quality decisions than groups without training (Hall and Watson, 1971; Nemiroff, 1976,; Nemiroff and King, 1976).

In one of the studies where training was provided in the assigned procedures, results pointed to the divisibility of the functions: satisfaction of at least two or more of the functions produced significantly higher quality group decisions compared to

groups that failed to complete them (Hirokawa, 1985). These two functions were: (1) ability to understand the problem and, (2) assessing the negative consequences of the potential solutions.

Formal decision-making procedures are purposefully designed to avoid unstructured or free discussion. Therefore, for a group to use a formal procedure, they may require training in its use. Functional theory uses a training-process-outcomes approach to small group decision-making (Cragan, 1990; Cragan & Wright, 1993; Jarboe, 1988). However, in all but a few of the published research studies (Hall & Williams, 1970; Hirokawa, 1985; Shultz et al., 1995), no training in the procedure was provided. Hall and Williams (1970) found that "trained groups consistently performed more effectively than untrained groups on measures of decision quality, utilization of superior resources, and creativity" (p. 39); they found "significant superiority of trained groups" (p. 66). Training in functional procedures seems highly likely to enhance usage of rational decision-making procedures, which will be reflected in enhanced decision-making process.

3.12 Problems with Research

In small group research, most functional theory studies have been laboratory experiments carried out with ad hoc groups of three or four university students. Because these ad hoc groups are formed purely for research purposes, their members are unaffected by the group's decision. These ad hoc groups are not real groups in that they have neither history ("zero history") nor future together (short-term). Problems given to these groups to solve had unequivocal answers and researchers did not determine whether the prerequisite functions for rational decision-making were adequately performed. Therefore care needs to be taken in unconditionally recommending that findings from this literature be applied to boards of directors.

The literature has theories and findings offering additional factors or alternative explanations of group decision-making effectiveness that were not explored in this study. Some of the factors were worthy of a much larger, more in-depth and longer term study, for example personality (Bales, 1969; Barry & Stewart, 1997; Hoffman, 1959), preference for procedural order (Putnam, 1979), and group maturation or development phases (Bales et al., 1951). Other factors' ability to provide readily usable insights into improving board decision-making were perceived as being too limited. This second category included: risky shift (Cline et al., 1979), group polarization (Mackie, 1986), social loafing (Latane, Williams, & Harkins, 1979), social roles and status (Collins & Guetzkow, 1964).

Pavitt (1993) emphasised that for research purposes, the group must care about the decision it is making to test the validity of the impact of formal procedures. Other scholars (Bales & Strodtbeck, 1951; Bormann, 1970; Cragan & Wright 1980; Poole 1983) have encouraged researchers to use "full-fledged" groups in small group research studies pointing out that the findings of studies using ad hoc or "zero history" groups may not be generalisable to real world groups.

Among past studies of formal procedures, only a few, Jarboe (1988), Schweitzer et al. (1986) and White et al. (1988), used circumstances in which a group decision mattered to its members. Even with these limitations, the findings tend to support the proposition that groups who follow rational decision-making procedures are more likely to have higher quality decision choices than those who do not (Cragan & Wright, 1993).

The board as a group is unlikely to be as effective as other teams due to the boards' unique circumstances (part-time, intermittent role, often equal in priority to other roles the director plays), (Conger et al., 2001). This point, however, only serves to emphasise the importance of doing everything possible to make the board as effective as practical. Because of the board's pivotal role in the

organisation, even small improvements in a board's decision-making can potentially have significant impact on corporate performance.

Many board studies that use proxies for board behaviour, such as secondary data or individual directors from different boards, have cited the obstacle of gaining access to the board of directors: "Directors' reticence to invite researchers into the 'black box' of boardroom deliberations is understandable....Directors fear that opening up boardroom activity to external scrutiny may also increase the risk of been subject to a shareholder lawsuit." (Daily, Dalton, & Cannella, 2003, p. 379). Although interest in the board has been increasing in New Zealand and abroad, few scholars have gained access inside the black box.

Training boards of directors to use functional decision-making procedures, raising their awareness of social constraints, and training a *reminder* to perform that role could be a means of quickly and significantly improving board of directors' decision-making process. Research is needed to examine *in situ* boards of directors and determine (1) which director and board factors directors view as influencing board decision-making, (2) what process and procedures, if any, they use in decision-making, and (3) whether training in functional procedures and the use of the *reminder* can enhance the boards' decision-making process.

3.13 Chapter Summary

A major challenge in corporate governance research is to explore how the board of directors may be the same or different from other small decision-making groups. Boards are groups and as such, the literature on small group decision-making was consulted to provide guidance into board process, specifically factors *inside* the black box of boardroom decision-making. Functional theory, an established research model, was selected as a germane perspective through which board decision-making process could be viewed. The theory uses the *inputs + process = outputs* model of decision-making; factors present prior to any group discussion

(the *inputs*) will influence the group discussion (the *process*) which in turn influences the group output. An exploration of some of the more likely internal *input* and *process* factors aided in identification of factors that might influence board decision-making. Use of rational decision-making procedures was recommended to improve the decision quality outputs of small groups. Through group discussion, members had to satisfy the four tasks or functions that lead to higher quality outputs. These tasks were: understanding the problem, establishing evaluative criteria for a good solution, generating options/solutions, and evaluating the positive and negative consequences of each option. The themes of paradox and interdependence of task and relationship factors noted in Chapter 2, carried through the input and process factor categorisation (see Table 3.5).

After reviewing the research on prescriptive and descriptive decision-making, functional theory procedures were proposed as a potential means of improving board decision-making process. Resistance to use of decision-making procedures was noted and the need for training in functional procedures and the use of a *reminder* to help ensure satisfactory fulfillment of each task was advanced.

The drawbacks of ubiquitously applying small group research findings to boards of directors were acknowledged. Functional theory has useful ideas and the inputs and process variables offer something to explore in studying board process. The need to study in situ boards was noted. The next chapter describes a research design to take heed of the limitations and achieve the desired board process investigation aims.

CHAPTER 4: RESEARCH DESIGN

The proper type of research on corporate governance has not been done, or, it has been done badly... More significantly it means that regulators, chief executive officers and directors, when they are searching for ways and means of improving corporate governance, are functioning in a knowledge vacuum; that is, they're making regulations and decisions without any real knowledge about what is going on in boards of directors or at worst, on the basis of an incorrect understanding of the major factors impacting on corporate governance. (LeBlanc & Gillies, 2003, p. 7)

4.1 Chapter Introduction

In Chapter 2 it was concluded that research inside the board of directors was needed to understand how boards make decisions. Chapter 3 pointed to the need for research using in situ boards to explore the factors that mediate board decision-making process and to explore whether training in functional procedures and the use of a *reminder* could enhance board decision-making process. This chapter examines the research methods chosen to explore what an in situ board and its executive management team (EMT) think contributes to effective decision-making, to observe how the board actually makes decisions, to determine whether training the board and executives in functional procedures and the use of a *reminder* enhances board process, and to test directors' perceptions of director attributes that contribute significantly to successful board process.

4.2 Research Purpose

The purpose of the research was to learn more about in situ board decision-making and how the board decision-making process might be improved. The literature review revealed that (a) there is a need to know what happens in real board decision-making, (b) two categories of variables, input and process, were identified as influencing decision-making quality, and (c) application of functional decision-making research with small groups may help improve board decision-making performance. This was an exploratory, revelatory study. Previously inaccessible subjects, the board of directors, were investigated and the study demonstrated how a combination of data types could be collected inside the board of directors (a) to minimise demands on directors, and (b) simultaneously maximise data points and triangulation. Collection methods and interpretation of data are discussed in the chronological order they occurred in section 4.7.

4.3 Research Objectives

Each of the four major research objectives was satisfied by a different combination of data collection methods. These are briefly described below and summarised in Table 4.1. To ascertain what participants thought contributed to effective and ineffective board decision-making, individual interviews were conducted and an initial survey administered at the conclusion of each initial interview. To discover which specific factors contributed to effective board decision-making and whether functional decision-making procedures contributed to enhanced board decision-making process, interview data, survey data, direct observation data and psychometric test data were collected. To understand what decision-making processes and procedures the board actually used, the interview data were supplemented by survey data and data gathered during direct observation of the board decision-making process.

Table 4.1: Objectives of the Study

Research Objectives	Methods used to gather data for each objective			
Identify what directors and executive management members think contributes to the board's decision-making process	Interviews of decision-making success and failure stories	Initial ranking survey		
Identify the factors that most likely contribute to board process	Interviews of decision-making success and failure stories	Initial ranking survey; Post-training survey; Post-trialling survey	Observation of board decision-making processes	Psychometric test data
Identify the decision-making process the board actually uses	Interviews of decision-making success and failure stories; follow-up interviews	Post-training survey; Post-trialling survey	Observation of board decision-making processes	
Do directors and EMT perceive that functional decision-making procedures and a <i>reminder</i> could enhance board decision-making?		Post-training survey; Post-trialling survey		

Lastly, to determine whether participants thought that the functional decision-making procedures could contribute to improvement of board decision-making, two surveys were used. The pre-training survey was administered before the training intervention. The second survey was administered after the board trialled using the functional decision-making procedures. A more detailed discussion of the objectives and methods used to gather data follows in section 4.10.

4.4 Naturalistic Research

This study used naturalistic interpretive research that focused on a high performing, publicly listed company board of directors; it explored what factors contributed to its successful and unsuccessful decision-making. Naturalistic interpretive research required observation of actual organisational practice, in this case, board decision-making practices. Such research would be difficult or impossible to accomplish without observation in an actual organisational setting.

In a special issue of *Communication Studies* (1990) group research scholars called for shifting the research from zero-history, ad hoc groups solving theoretical problems to real, established groups making decisions that are important to the group (Stohl & Putnam, 2003). Similarly, Gouran (1994) points out the benefits of research that focuses on decision-making groups in applied (natural) settings. Benefits include (a) seeing how real groups make decisions, (b) identifying antecedents that actually influence decision-making, (c) showing perceived and actual influences on effective and ineffective decision-making, (d) revealing sources of influence, and (e) highlighting ethical dilemmas and the ways members resolve them. This study used an in situ board of directors making decisions of consequence in expectation of realising the benefits Gouran (1994) predicts above.

Hypotheses were not formulated prior to the study, as it was exploratory research. Exploratory research does not make causal claims. Research with real boards limits the opportunity to test causal claims with an experimental design. The goal

of exploratory research is to develop understanding of the phenomena, and in this case, the ability to trial functional procedures to produce indicative data to inform future research.

4.5 The Sample

This was exploratory research. The major difficulty with this type of research was getting access to a board of directors to study. Thus, the selection of a sample board within the sampling frame of high performing firms was driven by the ability to gain access to the board. This case selection may also be described as a convenience sample, as the researcher's networks helped to obtain access, which might not be available to other researchers. Convenience samples require the researcher to be aware of the inherent bias, as the sample may be typical or atypical (Dawson, 2002).

Abramson (1992) points out the value of this type of 'convenience' case study:

First, since such data are rare, they can help elucidate the upper and lower boundaries of experience. Second, such data can facilitate...prediction by documenting infrequent, nonobvious or counter-intuitive occurrences that may be missed by standard statistical (or empirical) approaches. And finally atypical cases...are essential for understanding the range or variety of human experience, which is essential for understanding and appreciating the human condition. (p. 190)

Case studies of real boards carrying out decision-making are rare and this study exemplifies the type of situation Abramson (1992) described.

Qualifying characteristics for the case study company entailed being publicly listed, *high performing* (defined as annual return on funds in the upper quartile percentile of their industry for at least three consecutive years) and Australasian in location. Company performance was assessed in terms of Return on Funds for

2002, 2003 and 2004, a comparison of domestic and multinational organisations in the same industry. Appendix D shows these comparisons.

A high performing, publicly listed company was selected as the subject for several reasons. First, a high performing company might already be using some form of functional decision-making procedures or something else that contributed to their performance. Second, the perceptions of directors and executive management team members of the factors contributing to their successful decision-making were thought to be potentially more useful and plausible coming from a high performing company.

The chair of a qualified company was identified through the researcher's networks and an introduction was secured. The chair had attended an Institute of Directors course where the researcher had been a presenter. This previous exposure seemed to give credibility to the researcher in the chair's eyes. The researcher couched the research as an opportunity for board development as well as contributing toward governance research. The chair was enthusiastic about participating and agreed to distribute the Research Brief (Appendix A) to his board for consultation.

The researcher chose to maintain her professional image and demeanour in all interactions with research participants. She wore business suits to all meetings and referenced her work with other boards and directors when it seemed appropriate; she positioned herself as an objective expert in the field. Throughout the investigation, the researcher made it clear that she was not seeking nor accepting social engagements with research participants.

The chair telephoned the researcher after meeting with the board to report that one director wanted to speak to the researcher to discuss several issues before agreeing to participate in the research. The researcher telephoned the director who wanted to discuss the researcher's intent and credentials. Once it was

revealed that the director had met the researcher while attending a governance course the researcher had presented, the director was quite happy to participate along with the rest of the board. Board participation was subject to the researcher signing a confidentiality agreement prepared by the board's legal counsel.

Gaining board approval required (a) usage of the researcher's networks to meet an open-minded, confident board chair, (b) the provision of undertakings that confidentiality would be complete and commercial sensitivities would be respected and (c) assurance that the board would benefit from the intervention and feedback from the research. The researcher sought to “understand and explain the meaning of social phenomena with as little disruption of the natural setting as possible” (Merriam, 1998, p. 5) while also gathering the participants' perceptions of a normative procedure. This promise of minimising potential disruption was important for gaining access from directors who expressed concern about the potential for distraction and information security breaches from external observation and subsequent reporting.

This opportunity gave in-depth access to a high performing, publicly listed board, the individual directors, the CEO and later, the majority of executive team members, a situation usually inaccessible to scientific observation and primary data collection. The researcher was informed that board meetings were scheduled in major cities in New Zealand and occasionally in other Australasian countries in which the company operated and attendance was at the researcher's expense.

4.6 Units of Analysis

Within this bounded system are the units of analysis including several embedded units of analysis. The primary unit of analysis is the board of directors of a high performing publicly listed company in the Australasian energy industry. The board is a legal construct, tangibly evident when resolutions are passed, decisions made, outputs produced. The second unit of analysis, the individual directors

themselves, is an embedded unit (Yin, 2003). The CEO is the third unit, sometimes combined with the executives who comprise a fourth unit.

4.7 Multiple Data Collection Methods: Qualitative and Quantitative

Characteristics of qualitative research Merriam (1998) describes as essential include:

(a) interest in the way people have constructed or made sense of their world, (b) fieldwork where the researcher collects the data directly, usually through interviews and observations, (c) qualitative methods without guidance from adequate or comprehensive theory, and (d) the results are "richly descriptive" (p. 7) and focus on "process, meaning and understanding" (p. 7).

While much of this seemed to characterise the approach of the researcher, it was Trochim's (2001) views that captured more fully the approach taken:

The bottom line here is that quantitative and qualitative data are, at some level, virtually inseparable. Neither exists in a vacuum; nor can either be considered totally apart from the other. To ask which is better or more valid or has greater verisimilitude or whatever ignores the intimate connection between them. To do good research, you need to use both the qualitative and the quantitative measurements. (p. 157)

Trochim's views made sense and were applied. Subjects' attitudes, behaviour and experiences were captured through interviews, surveys and observation.

Quantitative data was collected via psychometric testing and aided in confirming interpretation of qualitative data as section 4.9 on triangulation discusses.

Naturalistic research emphasized the need to observe and understand phenomena as they occur naturally, outside the laboratory setting. A multi-method approach enabled the researcher to enter the directors' domain, interact with directors and executive members, observe the board in action, investigate board

norms, structure, communication and decision-making processes, provide a normative decision-making training intervention, and survey directors and executive members on how the board operated and the perceived utility of the training content. The training intervention was viewed by the chair and board members as part of their on-going board development, a perspective which minimised its intrusiveness in their minds.

4.8 Case Study Method

The case study is an “intensive description and analysis of a single unit or bounded system (Smith, 1978) such as an individual, event, program, group, intervention or community” (Merriam, 1998, p. 19). Miles & Huberman (1994) also describe the case study as “a phenomenon of some sort occurring in a bounded context” (p. 25).

In this study, the board of directors (comprising the chair and six directors), the CEO, and other senior management team (executive) members comprise the bounded system of the case study.

In a case study, many methods can be used for data collection and analysis (Merriam, 1998). The focus is on gaining insights into the phenomenon and uncovering the interaction of significant factors characteristic of the phenomenon.

Case study research provided a basis for examining how the board made decisions in a natural setting (Yin, 1994). The case study method is a powerful means of studying an issue that is not well understood and of which little is known (Patton, 1990; Yin 1994).

There are no fixed recipes for building or comparing explanations. An analogous situation may be found in doing detective work, where a detective must construct an explanation for a crime. Presented with the scene of a crime, its description

and possible reports from eyewitnesses, the detective must constantly make decisions regarding the relevance of various data. Some facts of the case will turn out to be unrelated to the crime; other clues must be recognized as such and pursued vigorously. The adequate explanation for the crime then becomes a plausible rendition of a motive, opportunity and method that more fully accounts for the facts than do alternative explanations (Yin, 1981)

The case study approach was selected as the appropriate research strategy because the goal was "to develop pertinent hypotheses and propositions for further inquiry" (Yin, 2003, p. 6) and for "examining contemporary events, but when the relevant behaviors cannot be manipulated" (Yin, 2003, p. 7). Studying real boards of directors making real decisions precludes the use of control groups and other behavioural manipulation methods.

The case study method was time consuming, requiring time to interview, transcribe the interview recordings into text and reading the transcripts many times to ensure that denoted and connoted themes were identified. Data reduction difficulties required many renditions before the final interpretation was accepted as accurate and comprehensive.

An explanatory case study consists of: (a) an accurate rendition of the facts of the case, (b) some consideration of alternative explanations of these facts, and (c) a conclusion based on the single explanation that appears most congruent with the facts. (Yin, 1981, p. 61)

The data reduction methods were extensively documented to enable other researchers using the same data to arrive at the same findings thus "establishing trustworthiness" (Lincoln & Guba, 1985). This documentation was also necessary as the procedures were new and not standardized, requiring them to be methodically followed and documented to support subsequent repetition.

Data collection tools remained tentative until the initial interviews with the directors and CEO were concluded. Once preliminary analysis of the initial interview data was complete, the emerging insights pointed the researcher as to what type of additional data would best inform the study. The case study is particularly suited to situations where variables and context (or boundaries between phenomenon and context) are not evident or separable (Yin, 2003; Merriam, 1998). Because the phenomenon and context were not clearly distinguishable in real-life board decision-making, the case study method was most appropriate. It copes with the technically distinctive situation in which there are more variables of interest than data points. It relies on multiple sources of evidence gathered with the intention of developing data convergence in a triangulating fashion. This approach benefited from the prior development of theoretical propositions, namely, functional theory (Hirokawa et al., 2000) to guide data collection and analysis (Yin, 2003).

4.9 Triangulation

Different types of data collection procedures result in different data types and content that can lead to different conclusions. Therefore, multiple data collection strategies were essential to substantiate interpretations (Scholtz & Tietje, 2002).

Triangulation is a form of methodological diversity, collecting many views and working to integrate them into a more comprehensive understanding of a complex phenomenon. Triangulation in this study involved comparing data from one source with data focused on the same topic from other sources. Fieldwork allowed gathering of data directly from subjects (through interviews, surveys and direct observation), which were compared several ways (interview against observation, interview against other interviews, survey data against interviews and observations, etc). Congruence and confirmation of data provided credibility to the interpretations, while incongruence and unexpected data created the opportunity to develop new insights and discoveries (Miles & Huberman, 1994).

Multiple data collection methods produced multiple sets of data focused on the same research problem but from different viewpoints, enabling a breadth as well as depth of perception. Results from one type of data collected (e.g., initial interviews) shaped the design of further data collection methods (psychometric testing) which expanded the breadth and depth of research (Miles et al., 1994). There was also a validation aspect to triangulation as it increased confidence in the findings by theoretically decreasing potential bias of a single method approach.

4.10 Data Collection

Data were collected in five phases, allowing the researcher time to reflect on initial findings at the end of each phase, make adjustments and prepare for the next data collection phase. These phases were not so much pre-planned as the result of accommodating the participants' availability. The first phase included initial interviews with all directors, the CEO and CFO, and the direct observation of the board in a decision-making portion of a meeting. Carrying out the direct observation needed to be completed before the training intervention in Phase 2 to ensure that what was observed was not influenced by the intervention. Phase 3, trialling of the training content, was then completed and Phase 4, psychometric testing of the directors and CEO, evolved out of the preliminary analysis of the results from the Phase 1 interview data. Completion of the executive team interviews and follow-up interviews with the CEO, chair and several directors concluded in Phase 5. A description of the techniques used for data analysis follows the five phase descriptions.

4.10.1 Phase 1: Initial Interviews, Direct Observation and Archival Data

Initial interviews

The first phase of the study involved fieldwork, including open-ended individual interviews and direct observation of the whole board during a decision-making portion of a meeting. Most of the descriptive data were collected through open-

ended interviews using a laptop digital recorder to gain first person accounts. These accounts were reported in participants' own words to retain the richness and flavour of their perceptions. The intent of the interview data collection was to understand the subjects' perspectives and meanings as part of (a) a particular group - the board of directors of a high performing, publicly listed, international company, (b) interactions within the board and between the board and its executive team, (c) their role as directors, (d) successful and unsuccessful board decision-making events, and other social activities (e.g., board socialising) that they viewed as impacting on the success or failure of board decision-making (Merriam, 1998).

The majority of interviews with directors and executives were conducted in the chair's office or in the boardroom at the company headquarters. A few interviews were carried out at other corporate offices loaned to the researcher when participants and the researcher were in the same city doing other business. Initial interview surveys were completed at the end of each initial interview. After all the interviews were completed, it was deemed prudent to clarify whether directors told of (a) a successful decision-making *outcome* or (b) a successful decision-making *process*. Directors were emailed and asked which of these they had in mind when being interviewed. Three responded and said they told the story selected because it was an example of a successful decision-making *process*.

At the very first interview, the chair indicated that the CEO and CFO were very familiar with the board's processes and should be included in the data gathering. Interviews were carried out with the chair and six directors, the CEO and CFO, making nine initial interviews in total. Transcripts of these initial interviews totalled 131 pages of single line text.

Participants were asked the same two questions posed in Hirokawa et al.'s (2000) study of retrospective narrative stories of team successes and failures. Hirokawa et al.'s (2000) data collection methods were altered to fit this study's

circumstances in two ways. First, the questions were re-phrased to ask about board decision-making successes or failures rather than “teams or groups”. Second, responses were given in oral interviews as opposed to written narratives.

At the conclusion of the initial interview, subjects rank ordered a list of factors contributing to decision-making success or failure (Initial Interview Survey, Appendix G). The list of factors was derived from Hirokawa et al.’s (2000) study findings. Preliminary analysis of the initial interviews led to the decision to administer an emotional intelligence test (described in Phase 4). There was email correspondence between the researcher and the CEO, several executives and several directors, arranging for interviews, scheduling the observation session, and then after the training intervention, assigning the role of *reminder* and re-sending the *Reminder* Prompts (Appendix F), following up on delayed responses (requests for information, test taking) etc.

Direct observation

Direct observation of a board decision-making session was carried out to understand how the board actually behaved in real decision-making circumstances. Two months lapsed after the initial interviews were completed before the researcher was given a board meeting time to attend and observe board decision-making. Although the researcher had signed confidentiality agreements drawn up in detail by the company’s legal counsel, the board was highly selective in the choice of topic it would allow the researcher to observe. The rationale for this was revealed in subsequent director interviews and is discussed in Chapter Five. After at least three telephone calls to the CEO inquiring as to when she could attend a board meeting as an observer, the researcher was informed of the date and venue for the board meeting as well as the time that the topic she was to observe was scheduled for discussion.

Direct observation of the decision-making process was at a board meeting held in a hotel venue room in another city. This location was selected as the board wanted to visit and examine a competitor's assets that had recently been sold.

Arriving early, the researcher waited in a room adjacent to the board meeting room. When she was called in, she was seated at a desk at the back of the room, out of direct line of sight for all but the chair and another director, allowing her to see and hear the discussion and take handwritten notes without distracting the directors, CEO or executives. Electronic recording was not allowed. The researcher was a silent observer, taking hand written notes of the exchanges and process. When the board meeting adjourned for lunch, the researcher made it a point to show her hand written notes to the chair and any directors who were interested as she felt there was an air of tension around what she might be noting. Although the chair and several other directors acted as though her notes were not an issue, there was an obvious relief shown by those who viewed the content of her notes, which reflected the process and only enough content to provide context for the process. When the meeting resumed, the climate appeared to be much more relaxed, possibly due to directors' reduced anxiety after seeing the researcher's notes, or possibly due to the easing of hunger or the opportunity to take care of other bodily needs.

The topic under discussion was deciding whether the board should make it a policy to use different suppliers for the external auditing work and other accounting and consulting services. The decision was neither major nor strategic but significant enough to be meaningful to board members as evidenced by the strength of the debate and discussion.

Archival data

The board chair, CEO, CFO and legal counsel were asked for copies of all board-related documents and policies. Other than director remuneration documents, which were not made available, the only board-related document that existed in

this organisation was the Board Charter. The Board Charter and Annual Reports were obtained. Generally, board policies and documents reflect the degree to which formally documented procedures and processes, role descriptions and behaviour standards have been articulated and formally agreed. Evidence of role clarification, board norms, decision-making procedures, and so on may often be found in these company documents. The Charter was silent on decision-making procedures as were the Annual Reports. The Board Charter and Annual Reports were published on the company website.

4.11 Phase 2: Training Intervention

The second part of the study combined a training intervention with a post-training survey of directors and executive members who attended the board meeting. Training in functional decision-making procedures was carried out in the company's boardroom as a scheduled part of a board meeting. Training was requested to be kept to a minimum amount of time in telephone discussions with the CEO aimed at securing a training date. The researcher set criteria for the materials to be succinct and concise, to enable directors to quickly and clearly understand functional decision-making procedures, task requirements, constraints and strategies (such as use of a *reminder*).

A thirty-minute PowerPoint presentation was presented (Appendix E) with handout notes and "Prompts for the *Reminder*" handouts (Appendix F) in conjunction with the researcher's oral presentation explaining the principles, procedures, constraints of functional theory and the *reminder* role. Training content was derived from: (a) Janis and Mann's (1977) seven defective decision-making processes that the board should avoid if they are to be vigilant, (b) Hirokawa and Poole's (1996) seven assumptions underlying functional theory, (c) the functional task requirements from Hirokawa's (1988) theories and, (d) a description of Janis' (1989) three constraints on effective decision-making (cognitive, affiliative and egocentric) and strategies to manage them.

After the PowerPoint presentation, participants were asked to fill in the Post Training Survey (Appendix H) to measure (a) their understanding of functional decision-making procedures and the three constraints, (b) whether they thought functional decision-making procedures would be useful, (c) the degree to which they already used functional decision-making procedures and satisfied each functional task requirement, (d) whether the use of the *reminder* role might improve their decision-making, (e) the likelihood of their using a *reminder*, (f) whether they thought their board would benefit from adopting functional decision-making procedures, and (g) how valuable the training presentation content was to the board.

At the conclusion of the presentation, the board took a break. The Post-Training Survey (Appendix H) was left to be filled in by participants, collected and posted to the researcher.

4.12 Phase 3: Board Trials Functional Procedures and *Reminder* Role

The third phase of the study involved the board actually using the functional decision-making procedures in a decision-making session. The board needed to experience using the functional decision-making procedures in a real decision-making situation to be in a position to judge its merits. This gave the board the opportunity to implement and test the efficaciousness of the functional theory. In addition, two board members were assigned (by the researcher) to carry out the role of *reminder*.

Due to confidentiality concerns of the board, the researcher was not present for the trial of the functional decision-making procedures and use of reminders. After the trial, participants filled in a post-trial survey (Appendix I). This required minimal additional time (five to ten minutes to fill out the survey). A director collected the post-trial survey forms and marked each survey as the views of a director or an executive.

4.13 Phase 4: Emotional Intelligence Test (MSCEIT)

There are no published studies of psychometric profiling of a board of directors. Director attributes including IQ, EI, ethics, trust, preference for procedural order and personality may provide insights into actual board behaviour, board dynamics and ultimately, board decision-making outputs. Fortunately, valid psychometric tests for all of these concepts are readily available. Unfortunately, participants were highly unlikely to agree to undertake six (or more) psychometric tests.

Potential areas of the board's profile investigated were drawn from the participants' descriptions of the skills or characteristics they perceived as influencing effective decision-making by the board. Through the Phase 1 interviews, it was determined that emotional intelligence was perceived by the directors and executives as being critical to the performance of the board. With this in mind, permission to administer an EI test to board members and the CEO was requested at the conclusion of the training presentation. The request meant additional time and intrusion for each director and the CEO as it required taking a test. At this point, one director expressed concern about "scope creep" at the request for additional data collection. The researcher left the meeting unsure as to the board's sentiment and then sent an email (Appendix C) detailing the additional demands and benefits for the board in agreeing to more in-depth research. Ultimately, the board agreed and the study altered to fit the access opportunity.

EI profiling of this board may contribute to establishing a baseline for comparison with other boards for understanding what director attributes contribute to high performance. Director profiling may provide insights into characteristics or attributes (a) the board may want to maintain as it experiences board renewal and (b) directors may wish to bear in mind as they join and influence other boards.

The majority of EI instruments are either self-report (known as self-judgment), peer report or a combination of the two. The statistical relationship between a subject's measured intelligence and their self-judged intelligence is very low (correlations

less than $r = .30$; (Mayer, Salovey, & Caruso, 2004)). Peer-report results may be influenced by the peers' fears about criticising a peer and thus causing harm, or peers using the opportunity to punish a peer by exaggerating weaknesses. The Mayer Salovey Caruso Emotional Intelligence Test (MSCEIT) was selected, as it is a criterion-based test that measures the subject's abilities against the correct criterion thus providing a more objective measure of ability. The test takes approximately 45 minutes to complete on-line and the answers were scored by the publisher.

Interviews pointed toward EI testing as potentially relevant data. This exploratory research relied on participants' assertions and actions to influence extended areas of research instead of predetermined sets of measures. The way directors recounted effective and ineffective board decision-making instructed the researcher in the particular phrases and language used to describe these events and behaviours. Factors the directors thought important were explored instead of predetermined factors and generic language.

Directors and the CEO thought that EI was an important variable contributing to the board's effectiveness. The MSCEIT was identified as appropriate for collecting quantitative data. The MSCEIT was designed to measure emotional intelligence. The MSCEIT is an ability-based scale.

...it measures how well people perform tasks and solve emotional problems, rather than simply asking them, for example about their subjective assessment of their emotional skills...Responses to the MSCEIT represent actual abilities to solve emotional problems. This means that scores are relatively unaffected by self-concept, response set, emotional state, and other confounds. (Mayer, Salovey, & Caruso, 2002, p. 1)

The MSCEIT divides EI into four branches.

Branch 1: Perception of Emotions

This branch concerns the perception of emotion and the capacity to recognize emotions in others' facial expressions and body language. This perception of emotion in the face, voice and related communication channels is nonverbal. This branch involves identifying "How do I feel?" and "How do others feel?" (Mayer et al., 2004).

Branch 2: Aiding Facilitation of Thinking

This branch involves understanding how and which emotions influence thinking. For example, creativity is enhanced by some emotions and but not others. Knowing what effect emotions have on one's and others' thinking can help direct one's planning: "How do I want to feel? How do I want the others to feel?" (Mayer et al., 2004).

Branch 3: Understanding How Specific Emotions Influence Thinking

Branch 3 refers to the capacity to analyse emotions, the way they change and evolve over time, and to understand how simple emotions can combine to form more complex ones. "What do I understand about my/other's feelings and what would make them change?" The development of this ability parallels the growth of language and propositional thought. Whereas a young child may experience emotional apprehension after breaking something she knows her mother values highly, the teenager and adult child would most likely be able to identify and label more of their feelings due to increased experience and maturation (Mayer et al., 2004).

Branch 4: Managing One's Emotions

Branch 4 is about managing one's own and others' emotions. It is concerned with what one can and will do to achieve one's goals, which necessarily involves the whole personality. Those with emotional self-management are able to respond rather than react and thus choose a more appropriate response. Managing emotions requires recognising what one is able and willing to do about one's own and others' emotions (Mayer et al., 2004).

The MSCEIT's overall reliability is $r = .91$ or $.93$ (depending on whether expert or general consensus scoring is employed), with area reliabilities of $r = .86$ to $.90$, and branch scores representing the four-branch model of $r = .76$ to $.91$. The test-retest reliability is $r = .86$. (Brackett & Mayer, 2003) in (Mayer et al., 2004, p. 202).

Content validity of a psychometric test is typically evaluated against the test designers' "own stated position on the concept" which is

...a four-branch ability theory of EI. The MSCEIT samples systematically from each of those four branches, using two tasks to measure each. The tasks themselves have been selected over a decade of study, which included consideration of the conceptual connection of each task to the theory. (Mayer et al., 2004, p. 203)

Emotional intelligence is an ability with an agreed on factor structure that can reliably be measured (Mayer et al., 2004). In regard to discriminate validity, EI appears to be different from verbal and other intelligences; "the MSCEIT's relation to measures of social intelligence may be no higher than its relation to traditional intelligences (Barchard, 2001)" (Mayer et al., 2004, p. 203).

Like previously alluded to weak correlations between self-reports and criterion tested measures of other intelligence (i.e., IQ), when the MSCEIT was correlated with other measures of self-reported EI "(Bar-On EQ-i [Bar-On, 1997], the Scale of Emotional Intelligence [Schutte et al., 1998] and the Occupational Personality Questionnaire 32 -- Emotional Intelligence Scale [Collins, 2001], it correlated $r = .21$, $.18$, and $-.31$ with them, respectively, indicating weak overlap of ability-based and self-report tests, as expected (Brackett & Mayer, 2003; Collins, 2001, Table 11)" (Mayer et al., 2004, p. 203). For this reason, an ability based test, rather than self- or peer-reports of EI, was selected. To understand the degree and manner that this intelligence may have contributed to board decision-making and dynamics, EI testing of board members and the CEO was carried out via on-line

testing at the convenience of the participants using the Mayer-Salovey-Caruso Emotional Intelligence Test (MSCEIT). An email with the web link address was sent to each participant asking them to follow the link and take the test. The test publisher sent an email to the researcher notifying her when a participant completed the test and the amount of time the subject took on-line. All participants took approximately the standard time of 45 minutes to complete the MSCEIT.

Individual feedback to directors and the CEO on their EI test scores was offered. Only one director expressed interest in receiving feedback. The interested director indicated that the director would contact the researcher to arrange a convenient time.

4.14 Phase 5: Additional Interviews

The CEO, two of the directors and the chair made statements in their initial interviews, which warranted further investigation through follow-up interviews. Views on whether the observed board meeting session was typical were also sought at these follow-up interviews. The two directors were interviewed at locations convenient for them while the chair was interviewed at the company's head office.

During the initial interviews, directors praised the CEO-initiated policy to rotate executive members who expressed an interest in becoming CEOs one day. The initiative involved designating one of these executives to be Acting CEO whenever the CEO was out of the office but it also included board attendance during the three months each year that each executive was designated Acting CEO. Permission was granted to interview the executive members who regularly attended board meetings. After the executives' interviews, executives filled in the same initial surveys as the directors. These executive interviews and surveys added additional perspectives. These interviews were carried out in the boardroom of the company on the same day that the chair was interviewed again.

Additional executive interviews and follow-up director interviews resulted in an additional 88 pages of single-spaced transcripts making a grand total of 219 pages of transcripts for analyses.

4.14.1 Demographic Data

Directors and executive members filled in a Demographic Data Questionnaire (Appendix J), which provided data as to the background, knowledge and experiences of the board members and CEO. Demographics questionnaires were posted and returned via post individually from directors, the CEO and executives. All directors and the CEO described themselves as independent directors and of European descent.

Table 4.2: Director & CEO Demographics

	Gender	Age	Education	Shareholding less than 5%	Ethnic Identity
Chair	Male	57	Bachelors; chartered accountant	yes	European
Director2	Male	55	Bachelors; lawyer	yes	European
Director3	Male	60	Some University courses	yes	European
Director4	Male	66	Fellow Chartered Institute of Secretaries	yes	European
Director5	Male	52	Bachelors	none	European
Director6	Male	64	Diploma	yes	European
Director7	Female	52	Masters	yes	European
Board Summary	Male but one	58 (mean age)	2 Masters 3 Bachelors 1 Diploma 1 University courses	All but 1 hold shares	European
CEO	Male	44	Masters	Yes	European

Table 4.3: Director Board Service and Industry Experience

	Years board experi ence prior to this board	Years on this board	Other Current Board appoint ments	Numb er of Prior Board appoin t- ments	Energy Industry Experienc e as a Director	Energy Industry Experienc e as an Executive	Energy Industry Experienc e as a Consultan t
Chair	10	11	4	3	-	-	-
Director 2	15	15	3	3	15		30
Director 3	18	5	5	90	15	-	-
Director 4	6	4	3	1	-	22	-
Director 5	3	3	12	5	-	-	10
Director 6	15	14	1	2	18	-	-
Director 7	9	11	2	3	11	-	-
Mean	10.85	9.0	4.2	15.28	4 directors	1 director	2 directors
or			(3.0 w/o	(2.8 w/o			
Sum			D5)	D3)			

Every director had prior board experience before joining the [the company] board. Four of the directors had served together for at least 11 years on this board. Two of the long-serving directors had energy industry governance experience prior to appointment to this board and two other directors had experience as energy industry management or consultant. A summary of the data collection phases and activities is presented in Table 4.4.

Table 4.4: Data Collection Phases and Activities

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
February - May	June - July	August	August- September	September
Director, CEO and CFO interviews with Initial Survey	Training in FDMP	Board trials functional decision- making procedures & Reminder	Directors and CEO take on-line EI test (MSCEIT)	Follow-up interview with chair; interviews with remaining executives; Initial Survey of executives
Direct observation of board decision- making process	Post- training Survey	Post-trial Survey		Demographic data collected
Archival materials obtained	Follow-up interviews with directors and CEO			

4.15 Data Analysis Description

Analysis of the interview data was the greatest challenge, in the time required and in ensuring transferability and confirmability of the process and content. The process warrants a detailed description and is discussed below in section 4.15.2 titled Thematic Coding of Interview Data.

The initial survey used an ipsative ranking. Analysis of the ipsative survey data revealed inherent weaknesses in using this form of measurement. This issue is discussed in the next section. The Post Training and Post Trialling Surveys were analysed using Excel Descriptive Statistics analysis tool. These are discussed with the results in Chapter 5.

4.15.1 Initial Survey Data Analysis

At the conclusion of the first interview, all participants were asked to rank a list of factors in order of contribution for the successful decision-making and the unsuccessful decision-making stories they had related (see Appendix G). This survey was designed using ipsative ranking. In hindsight, ipsative ranking is less desirable than rating, as the ability to draw comparisons was weak at best. Ipsative measures are orderings rather than measurements, therefore a correlation coefficient cannot be computed. Normality implies certain properties of symmetry and spread, therefore a normal distribution cannot be assumed. The data may be from a distribution that is skewed; therefore, distribution-free data analysis methods were appropriate. Non-parametric testing can be made if no assumption is made with respect to the specific form of the distribution measurements (Krauth, 1988).

Ipsative measurement compares the variables (options or items) with each other. Ranking the six factors that contributed most or least to the decision-making process is an ipsative comparison. Ipsative comparisons can only be intra-individual and are not appropriate for normative interpretation. Ipsative scores are essentially an ordinal level of measurement. Forcing respondents to choose and use all the ranking numbers avoids the potential biases introduced by (a) central tendency bias, where respondents avoid using extreme response categories; (b) acquiescence responding, where subjects show a tendency to agree with statements as presented; and (c) social desirability responding, where respondents try to portray themselves in a more positive or negative manner

(Baron, 1996). Ipsative ranking typically results in greater differentiation of scores since respondents cannot rank items equally. It was conceivable that this survey format might yield “more valid scores than a normative one, where it is easier to distort scores” (Baron, 1996).

Problematically, the purist approach to this is to say that ipsative scores can be used to compare intra-individual differences but not inter-individual differences. Many have argued that the norming of ipsative scores is not appropriate and results in meaningless scores (e.g. Closs, 1996). Raw ipsative scores allow intra-individual comparisons, but, it is argued, once scores are normed, intra-individual comparisons become impossible, and by the very nature of ipsative measures, inter-individual comparisons are precluded (Baron, 1996).

No assumptions have been made with respect to the distribution and results are reported in full though not relied upon for confirmability, to provide another indication of the factors directors and executives viewed as contributing toward board decision-making success or failure. Scores and results for this survey are presented in Chapter 5.

4.15.2 Thematic Coding of Interview Data

Data are the constructions or representations offered by the directors and managers: “If data are representations, they must represent empirical things. The ‘things’ are our ideas about empirical ‘reality’” (Stablein, 1999, p. 258). Data analysis leads to a reconstruction of these constructions (Lincoln et al., 1985).

Interviews were content analysed, systematically assigning codes. “Coding should be thought of as essentially heuristic, providing ways of interacting with and thinking about the data. Those processes of reflection are more important ultimately than the precise procedures and representations that are employed” (Coffey & Atkinson, 1996, p. 30).

The goal of coding is not to count things but to “fracture” (Strauss, 1987, p. 29) the data, and rearrange them into categories that facilitate comparison between things in the same category to aid in the development of theoretical concepts (Maxwell, 2005).

An inductive approach to creating a classification scheme was used to categorise the input and process factors that directors and managers perceived as contributing toward successful or unsuccessful decision-making. The first step of data analysis was to code the interviews. The first approach to coding was to use the six a priori thematic categories derived from Hirokawa et al's (2000) narratives study, which had used very similar semi-structured questions “to identify the factors that group members believe influence the performance of their groups” (p. 576). These themes and codes are listed in Table 4.4. Factors in parentheses are related concepts. For example, the role of the board, role of the chair and role of directors are related and grouped under role clarity, which is a factor in the structure category.

Codes were entered into HyperRESEARCH Qualitative Analysis Tool (version 2.6). Interview transcripts (source files) were manually searched for phrases connoting or denoting each code and marked when found. Some phrases were assigned multiple codes if their meaning or context fit more than one code.

The etic codes within each of Hirokawa et al's (2000) theme categories (e.g., under group structure: high standards, matched members skills to tasks, division of labour) provided some correspondence but did not fully capture concepts and meanings directors and executives said influenced board decision-making. Once all transcripts were coded using Hirokawa's (2000) lists, a second approach to the coding was made using participants' own frequently used words (e.g., trust, safe environment), phrases (e.g., best interest of the company) and concepts (e.g., humour, body language) resulting in 152 total codes entered and marked.

Redundant codes were then merged (e.g., work well together, teamwork) and the additional codes were grouped into *emic* thematic categories. Coffey (1996) supports this approach as a strength of using narrative data where

...there are no strict rules, no formulae or recipes for the 'best' way to analyse the stories we elicit and collect. Indeed, one of the strengths of thinking about our data as narrative is that this opens up the possibilities for a variety of analytic strategies. (Coffey et al., 1996, p. 80)

These *emic* codes (Maxwell, 2005), taken from the subjects' own words and descriptions were not selected because they were the most frequent "things counted" but because they were the factors that directors and executives seemed to emphasise as most contributory to successful and unsuccessful board decision-making.

The thematic analysis was inductive as themes were allowed to emerge from the data. Analysis of data from different participants was compared and contrasted until no new themes or issues arose. Finally, moving backwards and forwards between interviews, observation, surveys and test data, key themes and relationships between themes and factors converged, leaving only "out-layers" to account for. "The exceptions, misfits, and "negative" findings should be seen as having as much importance to the process of coding as do the easily coded data" (Coffey et al., 1996, p. 47).

Table 4.5: Comparison of Hirokawa et al.'s and Case Study Company Thematic Categories

Hirokawa et al's (2000) Categories	Case Study Company Directors and Executives Categories
<p>Group Structure</p> <p>Leadership, organization, roles, norms, and goals of the group: e.g., common goals, delegated responsibilities, good leadership, high standards, matched members skills to tasks, division of labour, roles and responsibilities, preparation, shared values</p>	<p>Board Structure</p> <p>Goal clarity (strategy, vision, strategic plan, project plan), role clarity (role of the board, role of the board chair, role of the board directors), use of advisors, leadership of the board,</p>
<p>Group Process</p> <p>Procedures and activities of the group and its members: e.g., efficiency, highly organized, coordinated effort, effective strategy, examined alternatives, evaluated pros and cons of all options, worked hard, good strategy, well-prepared, examined all options, flexible and cooperative,</p>	<p>Board Process</p> <p>Planning, decision-making procedures (agreed criteria, models, collective decision-making/consensus, vigilance (devil's advocate), rational reasoning (deductive thinking), speed of decision-making (time), post decision evaluation & learning</p>
<p>Communication</p> <p>Exchange of information and ideas among group members: e.g., open discussion, good listening, all opinions heard, equal participation in contributions, feedback and positive communication, openness and honesty, effective listening, information sharing</p>	<p>Communication</p> <p>Support and guidance of the CEO especially quantity and quality of information sharing by the CEO; open discussion, all views heard, support for the doubtful director, obligation to ask for clarification to achieve understanding, communication</p>
<p>Relationships</p> <p>Interpersonal relationships among group members: e.g., camaraderie, teamwork, close friendships, cohesiveness, supportive relationships and team unity, liked each other</p>	<p>Relationships</p> <p>board relationships (respect, tolerance, trust), homogeneity, board cohesiveness (board unity, working well together, socialising together)</p>

Table 4.5 cont.: Comparison of Hirokawa et al.'s and Case Study Company Thematic

Hirokawa et al's (2000) Categories	Case Study Company Directors and Executives Categories
<p>Emotions</p> <p>Feelings and motivations of group members: e.g., fear, enjoyment, pleasure, excitement, pride, trust, overconfidence, etc.</p>	<p>Emotions</p> <p>Confidence, comfort, trust, emotions, feeling, excitement, satisfaction with the decision</p>
<p>Member Attributes</p> <p>Knowledge and skills of group members: e.g., commitment, dedication, superior skills, ingenuity and creativity, very knowledgeable, lots of experience, and hard-working, high motivation, ability and skill</p>	<p>Director Attributes</p> <p>Competence of directors (understanding the business), commitment, emotional intelligence (sensitivity to nonverbal communication), director selection (appointment, board composition, induction), ethics</p>

4.16 Evaluation Criteria

There are divergent views regarding appropriate criteria for evaluating research. Guba and Lincoln (as cited in Trochim, 2001) put forward four criteria for evaluating qualitative research that they believe reflect the underlying assumptions of holistic qualitative research. These qualitative criteria are credibility, transferability, dependability and confirmability.

Credibility is established when the participants judge the results to be congruent with their perceptions. Transferability occurs where the researcher has described the context and assumptions of the research in sufficient detail such that they could be transferred or generalised with integrity to another context. Dependability

requires describing all changes inside the case and how the approach was modified to accommodate these changes. Confirmability is the degree to which others could confirm or corroborate the same results. Adequate documentation of research procedures can help support these criteria.

Trochim (2001) argues that even these four criteria are really just alternatives to traditional quantitative criteria and “may not be necessary” as “qualitative research cannot be considered merely an extension of the quantitative paradigm into the realm of non-numeric data” (pp. 163-4).

Just as some qualitative researchers reject *reliability* and *validity*, traditional quantitative evaluation criteria, Trochim (2001) views qualitative research criteria such as those advanced by Guba and Lincoln (Trochim, 2001) as attempts to mimic the quantitative paradigm. Viewing the differences as theoretical oppositions may pressure the researcher to choose amongst them and thus limit potential perspectives. This divisive approach was rejected in favour of accepting the paradox of “oppositions embedded in complex traditions” (Poole & Van de Ven, 1989, p. 563), and using the “seemingly opposed viewpoints...[to] inform one another” (Poole et al., 1989, p. 566).

Thus, Guba and Lincoln's four criteria will be reviewed in the discussion of the results in Chapter 6. Triangulation will also be discussed, as it was a means to strengthen reliability and internal validity of the findings. Triangulation aided in development of a “holistic understanding” of the problem, enabling “plausible explanations about the phenomena being studied” and was not “a technological solution for ensuring validity” (Mathison, 1988, p. 17).

4.17 Ethical Approval

Ethical approval for this research was obtained from the Massey University Human Ethics Committee. The research was carried out within the Massey University research ethics guidelines.

4.18 Chapter Summary

The purpose of the research was to learn more about board decision-making and whether or not the board decision-making process may be enhanced with functional procedures and a reminder. The literature reviews discussed in Chapters 2 and 3 revealed that (a) there is a need to know what happens in real board decision-making, (b) two categories of variables, input and process variables, were identified as influencing decision-making process, and (c) functional decision-making procedures may enhance or improve board decision-making process.

Four research questions were posed:

1. What do directors and executive members think contributes to the board's effective decision-making?
2. What factors most likely to contributed to board decision-making process?
3. What decision-making process did the board actually use?
4. Did directors and executive members perceive functional decision-making procedures and a reminder could improve the board's decision-making process?

The case study approach was discussed and particulars about qualification of the particular case study company were divulged. Details of the study design and particular mix of methods selected to collect and analyse the data were described to demonstrate trustworthiness and reliability and to contextualise the results that are reported in the next chapter. Key definitions are located in the glossary in Appendix K.

CHAPTER 5: RESULTS

5.1 Chapter Introduction

The context in which boards of directors make their decisions was discussed in Chapter 2. From the functional perspective, input and process variables that may influence the board decision-making process were described and discussed in Chapter 3. Chapter 4 detailed the research design selected to investigate board process in the case study company with the aid of the functional theory lens.

The research examined board decision-making, with no control over the behaviour of the subjects: directors and the EMT. This chapter presents the key findings: how the case study board made decisions, what factors contributed to successful and unsuccessful decision-making in the views of its directors and EMT members, and whether the training in functional decision-making procedures and use of a *reminder* enhanced the board's decision-making process.

The case study examined two specific instances of decision-making in the case study company: (1) the major acquisition decision, described in success story interviews with directors, the CEO and executives; and, (2) the auditor-independence debate observed at a board meeting. It also explored directors' and executive management team members' views of factors that contributed to decision-making failures by the case study board and other company boards the case study directors had participated on. These instances illuminated a situation of general interest in the governance literature, that is, the identification of the

perceived positive contribution or negative impact of factors on board decision-making.

A brief description of the data collection, how the data were treated in the process of condensing them for presentation, and the results of the data analyses is provided. Data collection instruments are located in Appendixes G, H, and I.

Table 5.1: Methods Used to Gather Data for Research Objectives

Research Objective	Methods used to gather data for each objective			
What directors and executive members think contributes to the board's effective decision-making	Interviews of decision making success and failure stories	Initial Ranking survey		
What decision-making process the board uses	Interviews of decision-making success and failure stories; follow-up interviews	Post training survey; post-trialling survey	Direct observation of board decision-making process	
Whether directors and executive members perceive functional decision-making procedures and a Reminder could support and improve board DM		Post training survey; post-trialling survey		
What inputs/factors seem most likely to contribute to effective board decision-making	Interviews of decision-making success and failure stories; follow-up interviews	Initial ranking survey; Post training survey; post-trialling survey	Direct observation of board decision making process	MSCEIT (emotional intelligence test)

5.2 Interviews

"Qualitative interviewing begins with the assumption that the perspective of others is meaningful, knowable, and able to be made explicit" (Patton, 1990, p. 278)

Semi-structured interviews explored what directors and executives thought contributed to successful and unsuccessful board decision-making. The same two open questions were asked in the initial interview with each director and executive. The first question asked participants to describe a successful board decision-making experience and the second question asked participants to describe an unsuccessful board decision-making experience.

Only two open-ended questions were asked to be able to compare and contrast the data gained from all interviews. This approach allowed flexibility so that other important information could be offered by interviewees, and the interviewer could probe for understanding and clarification. Directors and executives were encouraged to respond in detail; answers took some unanticipated directions, such as the discussion of the history of the company and how the selection of directors influenced the board's culture and functionality. The interviewer allowed these tangents so long as the person being interviewed felt they were relevant to the point of the narrative.

Follow-up interviews explored topics raised in previous interviews and the observed board meeting. Possible interpretations of emergent findings were discussed with directors. Specific concepts, such as development of the board's major decision-making methodology, the meaning and role of emotional intelligence, and the observed board decision-making session, were explored in these follow-up interviews, as well as clarifying previous responses and observations.

Results are presented using the six thematic categories Hirokawa et al. (2000) distilled in their research findings, which used narrative stories to identify retrospective accounts of why groups succeeded or failed. Of the six thematic categories, three are task-related: structure, process, and communication; three are relational: relationships, member attributes and emotions. Each will be discussed in turn.

The interview quotations provide insights into directors' and executive team members' thoughts and feelings. For this reason, extensive quotations have been included to illustrate participants' views and to allow readers to hear and taste the emotions, connotations and denotations participants conveyed in their own words. To make it easier for readers to tell subjects' quotations from literature quotations, the convention of italicising subjects' quotes is used.

5.2.1 Board Decision-Making Success Stories

The first semi-structured question was:

Think about your most memorable experience of board success. In narrative or story form, please provide a detailed account of that success – that is, describe what happened, explain why you think it was a success, indicate what contributed to your board's success. Please tell your story in as much detail as possible.

A prompt question was prepared in the event that interviewees' explanations were too vague: **What specific factors facilitated good board performance?**

5.2.1.1 Structure

Six out of seven of directors related the same major acquisition story as an example of successful board decision-making. The major acquisition took place approximately two years prior: "*This was a company changing event you know because we doubled in size; it was company changing*" [director].

The success stories underscored the importance of structural factors in accounting for successful decision-making. In interviews, both directors and EMT members

expressed directly, and through examples, that “*structure was one of the factors that contributed to the success*” of the board's decision to acquire the assets of the major acquisition company (MAC). This closely aligned with Hirokawa et al.'s (2000) research findings where *structure* accounted for the greatest frequency of all the explanatory themes identified as contributing to successful group decision-making. The case study participants did not specify the same factors within each thematic category as Hirokawa's participants. There was general overlap but the specific factors were different. This was not unexpected as Hirokawa's subjects were university students relating stories from unrelated individual experiences. To give a flavour for the similarities and differences between Hirokawa's study responses and those of case study participants, the actual factors and frequencies for the first theme, structure, are presented.

In Hirokawa's study, structural factors were: division of labour, roles and responsibilities, preparation, shared goals, and shared values. In the case study, directors and EMT members referred specifically to structure 33 times. Structure related factors (310) included: advisors to the board (25); analysis of the problem (3); big picture/vision/strategic plan (60); decision criteria (71); decision-making procedures (66); decision models (5); delegation (2); vigilance/devil's advocate (8); use of advisors (25); role related factors (director, board, CEO, chair and clarity) (102); goal clarity (6); planning and priorities (13). While the total frequency of structure-related factors may be the highest of the six thematic categories, it did not equate to a quantitative measurement but may have indicated the significance of this factor to directors and EMT. In this study, structure was used by subjects to describe the ways the board organised and used its resources, mostly in regard to the major acquisition project.

Decision-making procedures

Determining who was responsible for the overall structuring was unclear from the initial interviews as the directors attributed the credit to a combination of the CEO, management and the chair; the CEO attributed the structuring to himself and

management; and management attributed the structuring to the board. Directors spoke as if management was solely responsible for the planning and structuring leading to the successful decision-making:

So I think what stood out for me after that was the way that management organised themselves in terms of now how do we actually rollout this whole process. They very quickly put together a program, a plan, in terms of how they wanted to step out the process going through, yes we're gonna now have to talk to the movers and shakers, we're going to have to talk to the interested parties, we have to report back to various committees of the board, we have to report back to the board, we will need to consider whether or not we have the resource taking this forward because there's a huge involvement. We still have to continue to run our business and actually by gosh, it's the same sort of people running the business as it is going to be looking at this major potential acquisition. How do we actually give the board some comfort that we can handle all this? So what sort of teams are we going to put together? Management did that, they came out with a very impressive program in terms of, on a sort of what if we continue to go forward basis. They identified specialists teams at each point, they identified what roles the standing committees had to play in decision making times, they identified what special committees needed to be formed and who was best to be on those and what support they would have with that. So there was a very efficient and effective process from start to finish.
[director]

Executives also viewed the structuring of the major acquisition, including specifying criteria and outcomes expected, as having been a major contributor to the board's successful decision-making; however, executives ascribed the structuring decisions to the board:

This is a big transaction so they had to have a definite robust structure in place to manage it and the board discussed and they said this is what we will put in place and then it's just a case of implementing it and also finding

the right advisers into the group, not just, you know if you want a legal adviser we look for the best legal adviser, taxation advisor, best taxation advice, corporate finance, and so on. So it was the structure the board took, specifying the expectations, and their requirements before the decision to be taken. [executive]

The CEO described the set-up of the decision-making process as one of his responsibilities: *“The way I operate, the process itself will identify and kill off a bad decision... and that's why I have set it up”. [CEO]*

The CEO described some of the many models and financial tools used to evaluate each option against the board's specified criteria for a good decision.

To ensure that they are adequately informed in terms of data, information, [and] external parties advice, [we are] rigorous to the extent that we double up with the external parties, and we run a range of models, financial models to ensure that I can respond to any query that is put forward. The models are constructed in such a way that we can run multiple scenarios rather than a single scenario which might, say, reflect an additional cost or loss of revenue I can effectively ask them for the parameters and we can do the worst of the worst ... so what would happen if a particular decision had a compounding effect in terms of additional cost, failed merger activities, drop in revenue, a poor regulatory decision over any number of timeframes. [CEO]

The financial models used to show financial outcomes for the case study company in various scenarios required the generation of a range of options. The financial models satisfied all four task requirements of the functional decision making model: the goal was identified, the criteria for a good solution were specified; options were generated and the positive and negative consequences of each option were evaluated. It is important to note that the financial models were among several models used in the decision-making process. Multiple models, provided

by multiple sources using the same and additional data, provided diverse perspectives on the same problem. This was a form of vigilance, deliberately used by the board to enable incongruent assumptions and conclusions to be more readily identified and challenged.

When asked whether the knowledge to carry out this structuring was tacit or explicit, directors were adamant that it was documented in detail at the start of every major project.

It's documented.... there is a very detailed as I say project plan, put into place, using our executives, the boards, the various committees, your external people, before we get underway we're all sharing our own experiences and the documented guidelines that we have and that forms then the project plan going forward. It goes down into all sorts of minute detail...yes it's huge, a deal like that is hugely complex. We have to be very very prudent and undoubtedly very meticulous that what actually has to happen and when it has to happen at various stages through the project... It's planned at the outset. [director]

Executives acknowledged the large amount of documentation and planning work required, and expressed support, pride and excitement in their voices and words when describing what they perceived as proper board demands:

They love documentation and they drive us nuts in a way because some people say you guys have to do so much to get a decision through your board. I go, well no, this should all happen anyway. This is a disciplined approach to doing a deal. You set up your process and you scope out what your advisors want – you want your advisors to do so there's no gaps or holes, no doubling up – there's materiality thresholds are set – everyone's clear about their role and everyone's clear about what's important and what's not important, um, you then document your assumptions and before you even build a financial model, then you build your model, then you try out what happens if we don't get the revenue we thought we would and

what happens to this and then you summarise that in your Board report. You cover off in a logical sequence to the board by saying here's the investment rationale, here's why we're bringing this to you. [executive]

Structure tells the board who does what, when, and how; goal clarification provides shared focus: "*the board as a combined entity had one vision, one goal, one objective*". The chair emphasized that the "reason decision-making was good" appears to be due in large part to the board having a "thorough understanding of vision, goals all understood". The vision and strategic goals came from

...the board in terms of when we initially put- set about developing our strategic plan. We agreed what it was we needed to do to grow. We understood what our key strategies were....we knew where we wanted to head in terms of growing [the company] certainly in broad parameters. We knew that the profile of the entities that we may wish to target, we knew the type of businesses that we wanted to be in, we knew geographically where they were going to be. [director]

This clarity of goals extended from the board through management and into the planning and monitoring. It gave the board and management comfort:

There was a very good understanding between board and management in terms of what we wanted, we both wanted the same thing, and there was a very very good robust process put in place to enable us to get to the endpoint and there were also appropriate milestones along the way which meant we could actually have a go/no-go point at any point and that was discussed periodically so there's a high level of comfort I think that everybody was sharing the same and well put together in terms of our information decision-making time. [executive]

Sharing and clarifying the goals was viewed within this company as the mark of a strong, unified board. It made expectations explicit and enabled easy coordination between management, external advisors and the board.

The board dynamics extend out to the management into the consultants and the board was very clear as to what they were expecting to see before they took the final decision, saying ' yes this is the value we want to pay for this transaction.' So we went through a series of iterations and they very clearly defined the parameters required and the specifications they were looking for and that was unanimously agreed within the board and that I think was a very very great thing because in a lot of instances I've seen the boards sometimes split up, sometimes don't agree on certain things, and they don't know what they're looking for. But here, here there was a very united, unanimous sort of approach to the whole thing and it made life easy for the various groups looking, doing different types of research into the transaction because they had common goals. They knew exactly what they were looking for and what the board was looking for in producing that result. So I think that was a [unclear] for the company. It was a memorable moment because I saw the real board dynamics working in practical sense. You read about this in the books and so on theoretical models but you see it in reality it's happening-- it's something great. [executive]

The swiftness and relative ease of board decision-making was due in large part to having a shared goal:

The decision-making process that we didn't waste or spend hours and days talking about things. There was quick decisions. And because we had one objective one common objective, common vision, common goal in mind, the decision-making process was easy because there was no argument in the decision-making process because the board knew exactly what they want to achieve at the end of the day. [executive]

The CEO and executives were clear about the goals and worked to anticipate board concerns. This 'anticipation' actually shaped their thinking as it focused their attention on the areas directors saw as important. Before any decisions were made or any decision making process was undertaken, both the board and

management probably formed mental constructs about what information was important. Clarifying the goal(s) is another one of the tasks or functions required to be satisfied by functional theory.

Agreeing the decision criteria is a functional decision-making requirement. Boards make collective decisions. In a majority decision, a majority of directors vote for the same solution or option but may do so on potentially different bases from each other. One director may choose the winning option because it is most expedient whereas another may choose the same option because it is most economical and others might make their decision based on other criteria. Difficulties may arise later when the solution is implemented and decision trade-offs have to be made, such as more time, more investment or other changes that make the solution less desirable to some directors based on their initial individual criteria for selecting that option. Changes to the solution may be contrary to why some directors voted for the decision, pulling apart the majority's mandate. By explicitly agreeing the criteria for a good solution as a group, and evaluating the options against that shared criteria, the board achieves a "meeting of the minds" such that the basis for the decision is shared and later, should trade-offs be required, the board's shared criteria allows them to maintain their unity in reviewing and revising the decision.

What's the effect on [the company's] business value, what's the effect on [the company's] risk profile, what's the effect on [the company's] ability to deliver to its customers, so ultimately they were the three factors that we're considering. [executive]

In addition to identifying the goal, agreeing the decision criteria and generating options, functional theory requires the group to evaluate the positive and negative consequences of each option against the agreed criteria and other potentially influential factors. Directors spoke of this as being part of good decision-making.

I think one of the aspects of making really good decisions is that there needs to be recognition that in every decision that you're making, there are a multiplicity of factors that are going to impact on an outcome or lead

towards an outcome. And if only a few of those factors are taken into account, I guess my view is that the decision-making is sub-optimal, that the more of those factors that you can take into account the more likely it is that there's a robustness about the decision and a sense of rightness about the decision. [director]

Collectively agreeing explicit criteria and assessing the potential ramifications of each option or factor that could impact on the decision fulfilled two of the tasks of the functional theory: agree criteria for an ideal solution and evaluate the positive and negative consequences of each option.

The board's major project methodology appears to have guided the board toward satisfying the four functional task requirements: (a) analyse the goal, (b) agree criteria, (c) generate options, and (d) evaluate positive and negative consequences of the options. It also embedded vigilance through the use of advisors, as discussed in section 5.2.1.1.3.

Role clarity

Part of the comprehensive structuring included specifying the role (areas of responsibility) that each director, advisor and executive was to play in the decision-making process. Every director was assigned to one or two sub-committees and given specific tasks to accomplish within specified timeframes.

Why was it successful? Well some of the component parts particularly pertaining to the board is the way the board is structured into subcommittees. [director]

The board, management and the external advisors were made explicitly aware of their roles and the expectations of the board. Role clarity enabled the board and CEO to “cross the line”, gaining the benefit of the others’ views without risk of trespassing on the others’ turf.

I think the CEO and the board have a very interesting relationship around the governance and management split in that, I mean we're absolutely aware of where it is, but from time to time, the CEO will invite the board into management issues and the board will actually invite the CEO into governance issues and that's done on a kind of invitation basis, and um, I think it can only work when the parties actually know that they are moving into the other's role, but yeah from time to time, the CEO will talk really openly about the board with the board about some management issues and use the board almost as a sounding board from time to time when there's a decision to be made. The board will also ask the CEO how he perceives the issue, whether there are any factors that he's aware of within the company we should be considering as part of the decision-making process. Even down to saying, well you know, if you had to make this decision, would you be making the same kind of decision that it looks as though the board are about to make. I think that that kind of, that way of working requires a very high degree of trust between the board and the CEO, and that the CEO exhibits a degree of vulnerability to the board, I mean you really have to trust people before you'll do that... I think it's a fascinating area because everything you read about Governance says there's this strong line, and yet working on a board, where the board or the management cross that line, and it is by invitation, and it is in the knowledge that you are absolutely crossing the line, and then you go back again. I think that adds a huge strength to the board. But I absolutely have to qualify that by saying it would not work, I believe, if either party didn't know where the line was drawn. [director]

When specifically asked who initiated or developed the various decision models, structuring and planning methods, directors spoke as if these came from management, but when probed they explained that the procedures existed from prior acquisitions. To clarify this, interviews were conducted with two of the executives who were with the company prior to the current CEO's term. They both

said that the company had been through many prior acquisitions and had carried out due diligence investigations, thus developing established procedures for decision-making of acquisitions; however, both executives said the decision-making framework had been significantly enhanced since the current CEO's involvement. When the current CEO joined the company, he wanted the "summarised criteria consolidated into one metric" which came to be called by management, the "[CEO's Surname] Box". During the interviews, the CEO referred to this decision-making model by his own surname. A couple of the executives also referred to a model by the surname of the CEO:

Management would have to present make presentations to the board in working out, for example, the investment criteria: looking at returns on investment, the revenue uplift, the return to stakeholders shareholders, the uplift on dividends, all those were sort of on a metrics calculations We call it the [CEO's Surname] Box... our chief exec, set up, came up with this matrix for the board to look at and how they evaluated and with a sort of sensitivity analysis attached to it. [executive]

The directors who were subsequently probed in interviews about this tool were unable to recognise it by name. Following up this point with an executive, he explained that it was management terminology to refer to this model by the CEO's surname and the executives seemed to view this tool as a example of the CEO's leadership; to the board, it was just a one page summary of the metrics.

Directors and executives did attribute specific credit for some of the decision models to the chair. The chair had developed his own model that he and the board used to "verify the models from management and the advisers". The chair's model served as a further independent assessment (vigilance) of management's recommendations and analyses.

[Chair] has an uncanny ability to build models. He builds these financial models and he loves it ... he has this ability to build these wonderful modelsHe has this ability to bring out the key factors on the what ifs and there is

only about three or four what ifs on these companies, but of course when you're borrowing such large amounts of money, what if the interest-rate moves slightly, what if this and that and that sort of. He has these models. He spends hours on them I know ...but that was a help to the board. A lot of the stuff I must admit was probably above half the board really, the really technical stuff, but he with our advisors, he worked at this and we had the confidence in him and the confidence in the advisors that we had to work through so that was I've never seen anyone work through these in this way. But it certainly helped us. [director]

The chair exercised a leadership role in promoting the growth strategy of the company:

We have a very forceful, aggressive chair who the success at [the company] he can claim a lot of that through his aggression and willingness to get out there and take on the market and he has a desire to, you know, takeover everybody that's worth taking over, and that's a real strength in the sense of providing that leadership in terms of growth, no question about that. [director]

This description of the chair as “aggressive” in the marketplace contrasted with the portrayal of his “benign chairmanship” within the board (discussed later in the Process section). Confidence in the competence of the chair and the board advisors was emphasized as important for the members of this board. Throughout the interviews, directors and executives referred to *confidence*, *comfort*, *commitment* and *candour* as necessary for the board to have made timely, successful decisions. These cognitive concepts indicated a benchmark or standard that directors needed to feel had been reached to enable them to move the decision making forward. The CEO’s guidance and support focused on ensuring each director felt confident and comfortable to decide. These concepts are discussed further in the Relationships and Emotions sub-section.

Use of advisors

The extensive use of external advisers was another emphasised aspect of the way the board structured (organised) its resources. A long-serving executive related that although use of expert advisers was a long established practice, the extent of their use had increased over recent years.

Management had legal consultants and taxation consultants and financial consultants advising management for the transaction. Quite independent of that, the board had their own legal consultants and finance advisers, corporate finance and legal consultants, to peer review the whole thing. So there was a, they were about five or six different groups acting together, advising the board to take the decisions. [executive]

The board used external advisers to provide expertise and opinions:

We have an investment bank. They are highly incentivised for a successful outcome. So they get paid very little if the transaction fails, but they are paid a hell of a lot of money if the transaction succeeds [director].

The board recognised that the remuneration structure for one group of advisers might increase the potential for biased information: *“The board has felt uncomfortable that we will get unbiased information with such a highly incentivised structure for the investment bank. So what we have done is we have then engaged another firm”* [director], structuring their remuneration on a different basis, *“On an hourly basis so they are only paid for advice given or hours where they give advice directly to the board”* [director], and instructing them to critique the advice of the first group of external advisers:

We virtually use them as a sounding board. And so we can test against this other group of advisers, we can test the advice we are getting from the investment bank or we can test our own viewpoints knowing that the investment bank is so incentivised to do the transaction, you know there's a

risk you won't get unbiased information. Now that can create tension, that can- between the board's adviser and the investment bank. [director]

This strategy is recommended by Janis (1982) who asserts that employing a devil's advocate "stimulates the others to think more deeply about the pros and cons of each alternative" (p. 307). The use of external advisors to play this role eliminates the problem of fellow board members in the devil's advocate wielding too much influence and potentially inhibiting other board members' "expressing their genuine opinions for fear of being 'shot down'" (p. 307) by one of their own, the board member appointed to this role.

Management also used advisors to the extent that the board became concerned with the cost associated with management's use of advisers: "[wasting] \$300,000 in the last two months on advisors" referred to a board criticism of management's advisor usage:

There was a bit of embarrassment on management's point of view because we'd sort of let it get carried away with advisors and we hadn't actually picked that that would be an issue for the board [executive].

The board and management's practice of using multiple independent external advisors reflects Janis' (1972) recommendation of using advisory groups to "prevent insulation of an executive in-group from challenging information and independent judgments by well-qualified outsiders" (p. 264).

Hirokawa (1987) observed that unless the formal process imposed vigilance upon the group, the degree necessary to avoid groupthink and other dysfunctional decision making processes would not naturally occur. This board had embedded normative decision making procedures in its major project methodology. Vigilance was embedded through its extensive use of external advisors, the chair's models and management's information supply and recommendations. Through the use of advisors, many options for a good solution were discussed and debated, helping

to satisfy the functional theory task of generating options and evaluating the positive and negative consequences of each option. The major project methodology used by the board addressed in full the task requirements of functional theory.

Post decision learning

Initially, directors implied that management created the structure that contributed to successful decision-making. But when asked whether the board documented its procedures, the historical development of the structuring of procedures was revealed, along with the commitment to documenting, and maintaining and learning from experience

The learnings are there from earlier acquisitions. I mean these learnings are documented; I mean we do have post acquisition audits if you like. Because they are the learnings that are really important and it might be just a small acquisition or some activity if it's not an acquisition. But we have learning. [director]

The rationale for the post decision review demonstrated the commitment of doing what was in the best interest of the company, a recurring theme throughout the interviews. In this instance, doing what was in the best for the company meant creating and maintaining a lasting legacy of documented practices to minimise risk to the organisation in the event of management and board membership turnover.

We certainly do have our post-acquisition reviews and that comes back, from a few months afterwards you know how have we actually, what have we learned from this? What would we do different next time? And we keep that documented so as we progress through, we get better and better and better. ...Certainly our management team care, they would I think feel that they haven't done their job unless they've recorded processes and leave the guidelines in place for other people perhaps with lesser experience, if you like to come in and pick up the ball. That is very important because

vulnerability can be quite important; I mean if you're not actually recording processes and systems on the way. [director]

What the board refers to as 'structure' was the effective organisation of the board's resources for achieving a specific goal and embedded within it were tasks that satisfied the functional theory task requirements. Also embedded in the structure through the use of advisors was vigilance, technically a process strategy to avoid the dangers of a dysfunctional groupthink process. As this vigilance strategy was discussed under Structure, it will not be repeated in Board Process although it is a process factor.

Board process

Leadership

Leadership is both a task and relational factor. It facilitates the actual task decision-making process and it influences the relationships and culture (atmosphere and norms) that develop in response to the leader's actions. Leadership is inseparable from the six decision-making factors: structure (the chair's involvement in creating models, the role he fulfils), process (his coordination of resources at the meeting, encouragement of cooperation, preparedness, etc.), communication (his openness, listening skills, information and ideas exchange, etc.), relationships (the relationship between the chair and the CEO, between the board and management, among board members, etc.), emotions (the chair's response to emotions displayed explicitly and through body language, his own), and his own attributes (skills and knowledge, competence, EI, trust, ethics, commitment, etc.).

The role of the chair "is critical to effective governance; however, the successful chairperson views himself or herself as a facilitator of the boardroom process, not as the 'CEO of the board'" (Kiel & Nicholson, 2003, p. 125). As the facilitator of the board decision-making process, "*It's the role of particularly the chair who sets*

the mood of the board, and they must set an environment where people can ask what may be deemed the silly question” [director].

The “benign chairmanship” of the board was viewed with understanding and tolerance: “[At] times I think he lets things go too long, let's us talk too much; [it is because] “he's creating a atmosphere of time, and time for every director to express views and have them fully discussed so there's this collegial collective process where I believe every one of us feels equal and equally able to make comments, participate even if the statements are wrong” [director].

When emotions were expressed, the chair had “an ability to be able to, I think, constructively harness that emotion and be able to manage the debate around where it can come out the other end quite constructive” [director]. Seeing an individual's emotions or mood was viewed as one of the chair's responsibilities. Facilitating a good board process required the chair to scan for participants' (directors and executives) expressions and body language that may indicate a “discomfort”. Should the chair miss picking up the discomfort, “somebody generally tries to find a way and say 'oh excuse me through you chair, you seem uncomfortable [name] about this, it actually hasn't come through and we're about to close off the debate. I wonder, Chair, whether or not we could just see whether [name] has another area of discomfort?” Most of the directors had “chaired boards in our own right” and acknowledged that “not everybody can see everything at the same time, but between us... [we are able to see] oh gee I think the chair has missed that; it seems like that's really important to one of us” [director]. This board behaviour was another indication of a safe, enabling environment where all participants were allowed to contribute leadership behaviours that helped the board maintain its culture and attain its goals. It also pointed to the board EI capability to perceive emotions and understand that they can be managed when responded to appropriately.

...We view leadership as a role that provides for vital group needs by exerting influence toward the attainment of group goals. Leadership,

according to this definition, is a process. It is present no matter who the individuals are who are taking leadership roles or what their influence is. (Patton & Downs, 2003, p. 97)

In addition to occasionally missing someone's discomfort, the chair sometimes, *"would sooner not go down a certain pathway"*. Directors felt quite comfortable to *"push back and I'll say 'No, no, look it's really important to me that I actually get to understand exactly what, you know, what I'm trying to feel here' or 'No, maybe this is really important to Director7, Chair" [director].*

Pushing back was seen as an indicator of the board's openness to contrary views: *"They want and I want that openness at that board meeting so that that stuff is discussed openly, and I think the chairman does a good job at facilitating that as well" [CEO].*

Only one director mentioned a 'clique' in the board revolving around the chair:

There is a very strong bond between some particular members of the board...they've worked together for years and years and year... they're sort of on the same sorts of things and so forth and so on, and if it comes to a sort of a balance, not if it's clear, don't get me wrong I'm not putting them down at all, I'm just saying that if it becomes 'which way should we go here -- six of one, half a dozen of the other?' probably if the chair has put his hand up there, that's probably where they'll head. [director]

The chair was the major point of contact between the CEO and the board. The relationship between the chair and the CEO has been asserted to be "the most important role that the chairperson plays" (Kiel et al., 2003, p. 125).

Directors commented on *"a very good strong working relationship"* between their chair and CEO. They attributed this to the *"chair and his style, he's willing to say*

to [CEO] what he thinks....[the CEO] obviously feels safe in that environment...there's a very strong bond”.

The CEO described his relationship with the chair as “*strongly communicative...there is a fair bit of trust there between the chairman and myself...confidence in his ability as a chair... we both have an expertise in the areas we can share”.*

Trust and confidence between the chair and the board and between the chair and the CEO were seen as positive, valued indicators of the chair's leadership and consistent with the board's culture of building trust, confidence and comfort.

Consensus decision-making

Directors and executives remarked on the consensual decision making approach of the board as an important factor that contributed to the board's successful decision-making.

The important aspect of all that is how these different groups of people worked together in achieving one transaction.... it was the structure the board took, specifying the expectations, and their requirements before the decision to be taken and more importantly how the board acted collectively in achieving all that. [executive]

The ability to work as a team, to share the analysis, to share the evaluation, and to arrive at, if you like, almost consensus, certainly collective agreements on outcomes and I think it's a real ability. [executive]

I don't think we've had a split decision on this board. I mean everyone has- we've gone on until we have the consensus and I don't think it would be and others may bring this up but I don't think there's any decision we've made on this board at the board table it has not been unanimous. Now that's I can't think of any and some of the committees we have a bit of a difference

of opinion sometime and we talk it through at the board and everyone puts in their penny's worth through it and we talk through and yes so it's always been it's always been unanimity at the end. And that's quite exceptional. That is a really standout feature. [director]

The board's safe and supportive environment, decision-making processes and structures created conditions that readily enabled directors to identify and work through any 'discomforts'. When disagreements occurred within the board, a fuller presentation of views was more likely as well as higher board member satisfaction with individuals' and the boards' performance (Nemiroff, Pasmore, & Ford, 1976).

In the 3 1/2 years that I have been on the [company board, we have never made a decision on a voting 4-2 or 3-4.... All of the decisions are made by having strategy, having goals, agreeing on a process and progressively working the process through.... we got there by making certain that the chairman [was] making certain that the other six of us were totally comfortable all the way and if there was an anxiety or uncertainty, it was worked through. [director]

But, what would happen if consensus could not be reached?

If there were too much dissension in terms of where we're at, we would actually ask management to go back and supply further information rather than put a proposition to the board where they'd have to try to make some sort a decision before we were ready to. We'd rather delay the project and have management go back and do some more work and come back and debate it. So there is a very strong group team environment in [company] which I think is part of the success factor. I think it's part of the critical success factors, one of the critical success factors. [director]

Knowing that one's views matter to the group to the extent that everyone must be comfortable, and anyone's anxiety or uncertainty will be respectfully 'worked through' created a positive climate for effective group decision-making.

Communication

Information Requirements

“This all goes back to my basic fundamental, which is always keep them informed” [CEO].

The support and guidance of the CEO was viewed as vital to the board’s successful decision-making. Both the board and CEO emphasised the benefits of the CEO’s “*huge ability to -to gather information*”; it was reported to have kept the board informed, enabled faster, more effective decision-making by the board, given the board confidence in their decisions and confidence in the candour and effectiveness of the CEO.

I think they probably get more information from me than they had from the previous chief executive.... it certainly doesn't take us long to work through. ...I've made some positive contribution to that in terms of the concept of no surprises and some of this stuff here in terms of making decisions, them being fully informed about the company, the people we have, about structure. [CEO]

The relationship “*is an extremely strong relationship between the board and CEO and senior management.*” The CEO was viewed by directors as someone who “can make things happen”. “*I've got a lot of faith in [the CEO]. I- you know, he can actually make things happen.... I've got high regard for [the CEO]*” [director].

The CEO estimated he spent 15-20% of his time on board-focused information-supply activities:

Not so much supporting the board but, guiding them, providing them with information, responding to them, influencing them, preparing some information for them to absorb as part of general market knowledge to, prepare them for decisions, 15 to 20 probably, percent of my time doing

something associated with them.... so 15 to 20 is probably appropriate I think. But, I guess my question for myself is would I be worried if it was 30 or 40 or five and the answer is no, it wouldn't worry me, because I'm still driven by the end result.

The CEO worked to keep all the directors "more than adequately informed...I would suspect that they are probably more informed about their [company] activities than what they are for other boards they are on.... From my perspective, what I do to help them with decision-making activities is to ensure that their, I use the term more than adequately informed about a number of issues that affect the business on a broader context. They just don't receive monthly board papers from me, they receive weekly updates on key strategic issues, they will receive ad hoc pieces of related market information whether that's related in the sense of something about our peer companies, our competitive market, the regulatory regime, the financial markets, whatever it might be. The objective for me is to make sure that they have a very strong foundation of knowledge about our company, its performance against its peers, its interrelationship with other stakeholders that will affect our company's performance so that when the time comes to make a decision, there's no waste in the sense that they need to seek or see or absorb additional information. So that is a deliberate approach I take forward to assure that their, I use the term 'more than adequately informed'. So for example, if I were to require a board meeting today to make an urgent decision, there's not much additional information I would need to send our board of directors to fill them in the matter, no matter what stakeholder issue it was for them to make a call because I would expect them to be almost fully informed except for some information that may be missing from the last 24 hours. So to help build a comfort zone for them as directors with their accountabilities, my objective is to ensure that they are informed to the depth and breadth that they have a natural comfort zone with from which they can make prudent commercial decisions with the information that they need.

Directors said they felt that the quantity and quality of information sent to them by the CEO kept them “*continually being informed*”. The CEO felt strongly that the quality and quantity of information (input) he provided to the board, often on a daily basis, enabled the board to feel *comfortable* and *confident* to make timely decisions.

I keep getting back to a concept I call the key foundation or fundamentals. You've gotta have the culture at a board level that in itself engenders an approach to making decisions and what you provide, the input you provide is very important in terms of the board having the capacity, the wherewithal, and the confidence to make decisions and go forward.... it's critical that I can have the directors in a frame of mind, a decision-making frame of mind, and the only way to get them there is to ensure that they are adequately informed in terms of data, information, external parties advice, rigorous to the extent that we double up with the external parties, and we run a range of models, financial models, to ensure that I can respond to any query that is put forward.... [CEO]

From the CEO's point of view, doing whatever it took (usually by information sharing with the board) to get the board into their decision-making *comfort* zone was a large part of building the appropriate board culture of *confidence* around decision-making.

At the end of the day it's about making decisions that's [what is] critical for me. And that's about building a culture where they have the information to make the call. I have to have a comfort zone that they have adequate information and we've tested every scenario for them that they can sit back and say yes, I can live with this I'm confident about what I've seen, we can put the pedal to the metal [to] go forward. The planning memorandum is very important. Building a culture for decision-making is very important. Keeping the board informed is part of that culture. [CEO]

The CEO told of the extent of customisation of information that he felt was necessary to make the information as relevant and useful for each director's interests and ways of taking in information:

One of my tasks is to make that easier for them so when I communicate with them, I'll specify for them this one is of interest because of whatever it might be, this one you must read and understand, this one here is interesting but perhaps best if you just read the summary. So what I do is give them options and some would prefer to read the document from top to bottom, that's just the way they are. So I try and provide the information and data and documentation structured in such a way that I can still appeal to the various personal drivers they have.

[Chair, Director5 and Director7] get a copy of what's called the [publication name] ...that stuff is only interesting to those three and so I have other information subsets I organize as well, but always I'm checking to make sure that the other directors are not concerned that the subsets are- might be useful to them, and because they know I check and they know, they have the confidence that that information is shared openly, they can choose to be in or out of whatever they want. [CEO]

The CEO selected the information he sent to each director based on each director's indicated preferences and interests, thus avoiding information overload and hence potentially negative impact of such actions. The CEO actively practiced observing and mentally noting each director's explicit communication, such as asking for clarification, asking for summaries or synthesis, asking questions, etc., which then enabled the CEO to anticipate each director's information, needs and demands.

So for me every event that occurs, I observe, every board meeting the board dynamics, the issues, the questions, the format, the way they're asked, the words that are used, are all absorbed for me, it's like a sponge to learn something from every piece of data that's said. So for example if I get questions about certain facets of governance or financial management or

performance, that would just go into my CD, it's burnt in there which says OK, next time, next month, I'll produce something which answers that question format. That's a little different and it's just a continuous cycle of improvement. [CEO]

The CEO's reference to his own cycle of improvement was a reflection of an embedded board philosophy. The continuous cycle of improvement was built into the board's decision-making procedures as evidenced by their practice of the "post-acquisition review" previously discussed.

While the CEO saw the content or information as *supply driven*, directors viewed it as at least partially *demand driven*, something they have "worked really hard" to get.

The board is kept really, really well informed and the structure of the information that we get is really good. Any of us can ask for extra information and it will be given. We've worked really hard on the kind of information that we get in our board papers. [director]

The information supplied by the CEO may be viewed as contributing to the *trust cycle* described in Chapter 2 (Roberts, 1999; Roberts McNulty & Stiles, 2005; Sundaramurthy & Lewis, 2003; Westphal, 1999), creating a reinforcing cycle of openness of management toward the board and reciprocating trust and confidence by the board toward management. Whereas information is a task-related factor, it impacts on relationships, building comfort, confidence and trust which in turn encourages greater openness and sharing of ideas between both parties.

The structure, process, and communication task-related factor results were described in the last three sections. The next two sections describe the relational factor results.

Relationships and emotions

Relationships encompass relationships between directors, board culture, and relationships between the board and management. Board culture encompasses the collective attributes (or norms) of the board. Attributes reported by directors and the EMT as characteristic of the board included: a safe environment, trust, confidence and comfort, sharing the contrary view and providing support for the doubtful director, assertiveness, and the primary task intent of “acting in the best interest of the company”. Some of these board attributes are emotions (e.g., confidence, comfort, trust), which Hirokawa categorises as a separate theme; however, in the interviews, the emotions were described as characterising relationships and so the relationships and emotions thematic factors are concertedly discussed. Recognition and responsiveness to emotions (emotional intelligence) were also discussed as an important part of director attributes. Emotional intelligence is discussed as part of the director attributes factor in a subsequent section titled Director Attributes, sub-section *Emotional Intelligence*.

Safe environment: trust, confidence and comfort

The environment is enabling...

The environment enables you to speak. [director]

In their book, *Driving Fear Out of the Workplace* (1991), Ryan and Oestreich describe fear as “a background phenomenon that undermines the commitment, motivation and confidence of people at work” (p. xxi).

Directors and executives described a “safe environment”:

It's so important to feel safe ...you've got to feel safe. Oh I'd be most surprised if most of the [board] members don't feel safe around the [company board] meeting [director].

The problem of “the opportunities that are lost because people hesitate to offer their ideas” (Ryan & Oestreich, 1991, p. 122) is not a problem when “a trusting climate makes it safe to take risks” (Patton et al., 2003, p. 57). Directors were aware of the “safe environment” that enabled them to speak out when they might have been in the minority.

In the other board, you didn't actually feel at ease and somebody who is a little bit more timid, perhaps more timid than I might have been, wouldn't raise it so you'd lose it. So it's creating that environment to- it's creating an enabling environment. [director]

Fear was absent; *trust* had been created through a safe, enabling environment, which gave support for the director with the contrary view. Trust is a situation where each director has the confidence that no other director (or the CEO or executive) would exploit their vulnerability (Barney & Hansen, 1997).

Interpersonal trust was discussed in Chapter 2 and Chapter 3 as an important variable mediating human relationships, and as a key factor in effective executive group problem solving (Zand, 1972).

Trust between the chair and chief executive has been viewed as a vital precondition for effective board-management relationships (Roberts, 2002). *Trust* was previously discussed in the Role Clarity section when the directors and the CEO were comfortable with "crossing the line" between governance and management. This "line crossing" enabled the board to serve as a valuable source of advice and counsel for the CEO whose role was isolated otherwise. This "line crossing" capability may have contributed to the CEO's performance.

The CEO will talk really openly about the board with the board about some management issues and use the board almost as a sounding board from time to time when there's a decision to be made. The board will also ask the CEO how he perceives the issue, whether there are any factors that he's aware of within the company we should be considering as part of the decision making process. Even down to saying well you know, if you had to

make this decision, would you be making the same kind of decision that it looks as though the board are about to make. I think that that kind of, that way of working requires a very high degree of trust between the board and the CEO and that the CEO exhibits a degree of vulnerability to the board, I mean you really have to trust people before you'll do that... I think it's a fascinating area because everything you read about Governance says there's this strong line and yet working on a board, where the board or the management cross that line, and it is by invitation, and it is in the knowledge that you are absolutely crossing the line, and then you go back again. I think that adds a huge strength to the board. But I absolutely have to qualify that by saying it would not work I believe if either party didn't know where the line was drawn. [director]

Trust, confidence and comfort were three factors that the directors and executives made many references to as enabling the board to make effective decisions. These factors appear to be part of the trust cycle, wherein trustworthy behaviour builds confidence and comfort and reinforces further trusting behaviour.

There's a lot of confidence in the board members. You know when you have done a major transaction together, when you have relied on other people's judgment, when you have relied on other people to make this also their number one priority, you put aside other issues and you make this issue the number one priority, that builds up a strong trust and confidence within the Board of Directors so that when you move on to subsequent transactions that may not be of quite the same level of intensity, that trust and confidence does carry through. [director]

Throughout the interviews, executives and directors described the needs of the directors to feel *confident* and *comfortable*. Confidence in the people and processes was seen as necessary to build feelings of *comfort*, which enabled swift decision-making. Comfort was used in the sense of assurance that nothing was wrong, there was no danger and whatever they were doing, it was correct and

wise (Brundin, 2002). Confidence was used in the sense of being able to trust others and one's self "to do what they are supposed to do and that they will not disappoint you or fail; the belief that you can deal with situations successfully using your own abilities or qualities; A feeling of certainty that what you are saying is correct" (Brundin & Nordqvist, 2005, p. 355).

Confidence and *comfort* were used as sorts of standards the board had to reach as a prerequisite for decision-making. It became apparent that *trust* engendered *confidence* and did not preclude the board's need to scrutinise or criticise management. When distrust arises, social networks may be negatively affected. Unwarranted distrust may result in serious negative consequences (Rotter, 1980a); however, gullibility may also lead to serious consequences. Rotter (1980b) defined gullibility as "believing another person when there was some clear-cut evidence that the person should not be believed" (pp. 38-40). To trust a stranger who has not lied or behaved untrustworthily would not be gullibility; to believe a director or executive who has lied or deceived through omission many times before is gullibility. Rotter's (1971, 1980) research showed that those who are trusting are no more gullible than those who distrust. To carry out their responsibilities, boards' trust must be combined with objective scrutiny. In fact, executives felt the benefits of the board's trust perhaps especially when they felt some vulnerability or weakness in their own presentation:

You go through a presentation to the board and they will come up with some stuff and an angle that you didn't think of. Next time you do a presentation, you're naturally going to have thought about it from that angle because you know that that's kind of some questions you got last time and it's obviously important to them so you might as well do it and present it to them so you end up with this iterative kind of process. Some of it's management trying to put a governance hat on and saying if I was in governance, what will I be wanting to see, some of it is to listen to what they're saying and think to yourself, man we winged it in that bit, we're really lucky, they were really starting to give us grief there and we really

were a bit short on giving them good information. In the end they've trusted us on that one. They've made the point that there's an area we thought you're a bit light on but they haven't crucified us and said go away, come back when you've got it – they've just said well, you know, I think you probably want to look at that a bit harder and in the end they take that into account in their overall thing of whether they're going to go ahead with it but they don't sort of just get all pedantic and say, oh this isn't complete enough, go away, come back when it is. So from that element they're sort of giving a message of saying well next time, and if they really are tough there will be occasions where they do come back and they just say well we would like a bit more information in this area. Now that to me would be a big failure for me as management because I believe I should be providing a complete business case and be able to give them all the information and have it at my fingertips in a presentation so that they can in a continuous kind of manner address it and etc and not have to come back because I forgot something or I didn't do something very well.

Golden-Biddle and Rao (1997) point out these paradoxes (they refer to as conflicts) inherent in the board environment: directors are to be friendly, supportive colleagues of the CEO, management, and each other, and at the same time, vigilantly scrutinize all their ideas and actions. Perhaps the presence of trust makes this paradox workable.

Directors and executives referred to the *confidence* they felt that enabled them to feel *comfortable* about their reliance on directors', management and advisors: “we had the confidence in him [chair] and the confidence in the advisors”[director].

Confidence “implies conscious trust because of good reasons, definite evidence, or past experience” (Gibb, 1978, p. 14). Confidence is inversely related to uncertainty (Peterson & Pitz, 1988). As candour is to honesty, so may trust be to confidence. Trust goes beyond confidence as it requires no evidence or

experience; it is freely, often instinctively given and its presence or absence can make a powerful difference in relationships (Gibb, 1978).

Directors made predictions for success based on the relevant information available to them and their trust and confidence in each other and management:

We have a high confidence level amongst each other. [director]

If people want to check on the factual base, the information is available to them.... – there is a great element of trust between management, executive management and the board but factual evidence, ...should be available for them to be able to verify the assertions. [executive]

They're looking for management to be able to give them comfort that we understand things fully – we've looked at all the risks – we're not hiding anything – we're not trying to pump anything up to being what it's not being. You know, there's no spin. [executive]

In another example, an executive describes how the high level of detail in the structuring phase of the major acquisition project gave the board *comfort*:

Now we often don't expect them to read all this because in the end it's got down to literally bullet points of checklists of that in due diligence you will check all these things out. These are the instructions that go to advisors and become the basis of advisors' engagement letters. But what the board's doing is getting a comfort around that we've got a disciplined process to looking at the opportunity, that we are looking at all the key things that might it be successful or a failure. We've got the best people assigned to it and there's a project structure so they get happy about the process – that's all that kind of stuff. [executive]

The board's value of needing to feel comfortable was projected to their stakeholders:

We were totally confident that it would work, that we could make it work, it would be of benefit to our shareholders and of course, along the journey keeping those stakeholders...comfortable with what was going on and in the end there was this immense sense of relief and comfort that we had set out on a prolonged decision-making project in which we had confidence and which was successful.

The high value placed on comfort for the board was reflected in the CEO's awareness that he needed to understand what created or interfered with creating feelings of *confidence* and *comfort* in the directors. He worked to provide the information to achieve the desired *confidence* and *comfort* frame of mind conducive to decisive board decision-making.

I would look at it on the basis of wanting to draw out from each of those individual directors an articulation of what makes them comfortable or uncomfortable. I want it. I want them to say that. [CEO]

Awareness of people's emotions and how emotions impact thinking is a partial description of emotional intelligence (Lopes et al., 2004). The degree of emotional competence (in the areas of influence, empathy, and achievement orientation) has been shown to determine whether member interactions build team cohesiveness (Rapisarda, 2002). Agency theorists might view it as management's attempts to control and manipulate the board. Board process researchers view it as supportive of a trust-based relationship, which requires knowledge of the other's vulnerabilities so that one does not inadvertently cause hurt or harm, helpful when building a collaborative, constructive relationship. Trust-level theory (Gibb, 1978) asserts that trust begets trust, and fear or distrust escalates into "loneliness, alienation and disconnectedness" (p. 15). This board described its culture as supporting a trusting, psychologically safe environment "*where you can show your vulnerability*" [director].

Acting in the best interest of the company

Although "acting in the best interest of the company" is a task-related factor, technically an aspect of clarifying the goal within the structure category, it was described as a particularly strong attribute of this board, one that pervaded the task and relationship dimensions and was, along with trust, a unifying factor between board members. Five out of seven of the directors, the CEO and all four executives emphasised throughout the interviews that "*the best interest of the company*" was the primary guiding intent for the board:

They always, all directors have that very key issue or key objective in mind - - to act in best interest of the company. That comes first and most... that's always the key driver in the decisions being taken they aren't taking decisions for personal benefit or a particular shareholders benefit or a particular group's benefit. It's always what is the best for the company. And the company comes first and that I think is in fact if you look at our corporate governance charter that's one of the principle factors in there the best interest of the company. [executive]

Both directors and the EMT raised this intent as an element that contributed significantly to the success of the board's decision-making: "*First of all, the key driver of the board, which is acting in best interest of the company- that drives the whole thing*" [executive].

Australian company law requires directors to act in good faith and proper purpose (Australian Government, 2001, p. s181); New Zealand company law imposes a duty for directors to "act in good faith and in what the director believes to be the best interests of the company" (New Zealand Government Companies Act, 1993, ss131(1)).

The way in which this duty was interpreted and operationalised (as perceived by the EMT) was that directors used the same criteria for the company that they would have used if the decision was a personal one:

They were out to guard, you know, shareholders' money. They viewed themselves very much as stewards of shareholders' funds in this occasion and would it be something that they personally would put money into. Was it such a good deal that they would be convinced themselves to put their own personal money in if it was open to do so, and did it pass that smell test, and some of them are quite conservative in what they put their own money into.... [executive]

Several executives confirmed that the directors regularly referred to the guiding intent of 'acting in the best interest of the company' during board meetings. Executives and directors used this intent as a standard by which potential actions and decisions were assessed.

Share the contrary view and support the doubtful director

Boards are meant to be made up of independent thinking and speaking directors, who share ideas, feelings and pool their information resources. Ideally they analyse the problem (clarify the goal), agree the criteria for a group decision, generate options and evaluate the positive and negative consequences of each option before deciding. The reality is that many directors find themselves 'the lone voice' on a board whose culture is to gain consensus even if it requires pushing minority directors into conformance with group views. "This is a very common problem, with too many directors finding themselves a 'voice crying out in the wilderness'" (Ward, 2000, p. 138).

Everyone says these things out there in the marketplace about well you know we encourage people to have their say and you know it's good to have people who are, people who are not necessarily going to sort of follow the party line and so on. In my experience on many boards while they say

those things, that's not in fact the reality. The reality is that often people will for reasons of their background or they don't want to be thought of fool or they don't want to raise something even if they don't feel quite happy about this, they won't actually, they won't actually raise it. [director]

The board had complimentary norms of (a) obliging each director to understand and decide on each issue on its merits, and (b) supporting a director who did not understand or agree with the prevalent view. Rather than relying on another director's judgment, *"It's important if you're going to be a good director, you've got to understand exactly what's going on"* [director]. On this board, each director was expected to ask for information and explanations until satisfied. Each director was expected and supported to use his/her own judgment until he/she was confident and comfortable with his/her own understanding of the issue.

I mean as a director you can't have any passengers.... other boards that I'm on, I hate I absolutely hate when someone says I didn't read the that investment paper because I knew that Director5 would and I'll rely on Director5. If Director5 is happy with it, then I am on board with it. Now [to me] that's absolutely wrong. And certainly the company we're talking about, you know none of the directors would ever use that that expression. You know the environment within the [COMPANY] board is such that you know everyone is expected to do the work. Everyone is expected to understand and if they're uncomfortable, then the atmosphere is there that they can ask the question and say 'well I'm sorry I just didn't understand this. [director]

An example of the board's commitment to satisfying the doubtful director occurred during the major acquisition project:

One board member was particularly concerned about an issue and clearly, he was very sincerely and very worried about an issue and instead of knocking off at six that evening we were here until 11 at night seeking advice from advisors including advisors overseas in COUNTRY2 until he

eventually became satisfied that this particular issue was OK. So a part of the process was that while I did not agree with his need to be as anxious as he was.... we worked it right through until we clearly understood what was driving his anxiety and then when he was satisfied we had the additional level of satisfaction. [director]

Janis (1972) asserts that groups must encourage members to air doubts and uncertainties if they are to use the resources of all group members and avoid dysfunctional decision-making.

When he's comfortable I will be comfortable and I'm absolutely certain that the rest of them would not have suffered this amount of time if they had not had a similar view...well it's important because one day, one of us me may be raising an issue that the rest of them understand and I don't and it seems time consuming and it turns out to be right. [director]

The support for contrary views and the support for the doubtful director were part of the safe, enabling environment (culture) and a task-related communication factor. These two board norms fit Hirokawa's (2000) categorisation of communication, a task factor. They have been included under the relationship category as they were described as being integral to board expectations of its members.

The board culture supported and encouraged positive 'team' feelings of confidence in the board and commitment to the board. These are normally double-edged swords as they are antecedents of high group cohesion; high group cohesion is an antecedent of groupthink (Cota, Evans, Dion, Kilik, & Longman, 1995; Moorhead, Neck, & West, 1998). However, groupthink was unlikely to develop given the board's strong support for directors who expressed doubts or held contrary views. Independent thinking and speaking were perceived as "*being healthy to be different and have a different view*" and "*able to debate things*

clearly... you don't get slapped over the knuckles for asking the silly question because sometimes the silly questions actually have a very important, because you raise something so you feel that the environment is enabling in that sense. The environment enables you to speak” [director].

The obligations to express views that may be contrary to the known views of the majority and to support directors who do express those views appeared to be strong norms that shaped this board's culture. These board norms were supported by another behavioural norm, *assertiveness*.

How would I describe our culture? I would say that we are reasonably assertive, I wouldn't use the word aggressive but I am aware that others might use the word aggressive about us. I think we are quite assertive. I think we are very well organised, well prepared and logical, and we go for it.... but I think that that culture comes from the board and the CEO. And you can't expect the rest of the company to do those things if the board doesn't model that behaviour. [director]

The CEO viewed part of his responsibility as building the board culture:

One of my jobs as part of building this culture is to know the individual directors individually: their competency, their background, their history and their particular emphasis on certain features of running a business. Anticipate those and have all of the responses prepared in advance for those. So my job every time, every time I get a question from a director that I haven't had before is a new learning experience for me, the chief executive. [CEO]

New questions seemed to indicate to the CEO an area that directors were concerned with; he added this area or concern to his list of questions he needed to anticipate in subsequent discussions as part of his job to retain board confidence in the EMT and build the culture of trust.

Homogeneity

The board credited its homogeneity as a factor contributing to its effective board dynamics. Directors acknowledged that they “*may even be seen from the outside as an all-boy network*”. Directors found the “common background” of their peers’ education and business experience enabled them to feel confident in the understanding and judgment of their board members: “*We work very well together and that's because of the confidence level I think we have in each others' ability and in our ability to work as a group and within a team*” [director].

Several directors compared this positive homogeneity to less positive experiences where they had served as directors on government entity boards “*where people have been appointed because of some particular attribute they bring and maybe they're appointed to represent some part of the community. That is unsatisfactory*” [director]. Directors claimed those boards were less than effective because the ‘representative’ appointments did not have the knowledge or experience to understand the complex issues, business language and mode of thinking of the ‘common background’ directors.

The board had one female director. “*I think that's a real effort- I'm not being critical here at all, it's a real effort by the guys to make sure that [the female director] feels absolutely that as the only woman ... around the board table, she's actually given the time and the space.*” [director]

The female board member perceived and appreciated the "effort" made by the men on the board:

And for me it was just an amazing experience to find a group of men who were actually prepared to work in that way. I guess for me it's an amazing example of a board utilizing diversity. That very often I think diversity on boards is seen as a token thing that you must have your woman and it's probably better to have somebody of a different racial makeup or whatever

but very rarely do boards allow those people to operate in a way that's not the kind of white middle-class male method of decision-making.

The homogeneity of the board may have reduced conflicts associated with more diverse groups and contributed to the ease with which the board members were able to trust and support one another.

Socialising

Westfall (1998) found that the development of social ties between the CEO and board enhanced mutual trust and allowed executives to seek advice from the board, reduce their defensiveness and political behaviour within the board, and enhance the opportunity for learning.

Social ties between the board and management foster trust (Westphal, 1999). The time constraints of board meetings mean directors have to find other opportunities to learn more about the CEO and management and to build effective relationships (Finkelstein & Mooney, 2003). In addition to the formal board meetings, the board and executives regularly planned some social time *“to understand the personalities, individuals around the board table...that's a part of the ongoing development process...over time you build up this confidence...and credibility”*. [director]

The board made it a practice to regularly rotate board meeting locations, holding some board meetings "in the field" as an opportunity to strengthen board and executive social ties, but also "to be in contact with the real world as opposed to the ivory tower, which everybody has a tendency to be corrupted by when you sit in those [board] rooms" (Finkelstein et al., 2003, p. 110). Visits to the various sites gave the board "soft" information about the operations and an opportunity for the board and executives to develop more common understandings and familiarity with field operations, potentially informing more productive board-management discussions (Sundaramurthy & Lewis, 2003).

Directors readily acknowledged the benefits of socialising with each other and with the executives:

At reasonable intervals... we find a reason to have board dinners together... nothing specific, no topic but just getting the board and you know [CEO] and one or two of the managers together just helps cement some of those understandings, cement how people work together, you know how people think. [director]

“Board chemistry” was the term directors and the EMT used to describe why board members worked together and cooperated. *“I would say that a person wouldn't be selected to go on the [the company] board if the chemistry wasn't right”*. Given the emphasis on ‘team’ and working well together, it might be reasonable to assume that board friendships extended outside the board meetings. However, board members *“are not friends in the sense that we go to one another's place for dinner parties or we go fishing together or these sorts of things... When we meet as a board and occasionally, we have a board function, we all enjoy each others' company but ... we are friends without being intimate if you know what I mean” [director]*. Directors made it clear that they were not, nor did they feel the need to be “best mates”. Whether this attitude was motivated by weak attractions or wariness of too much group cohesion was not explored.

Director Attributes

Emotional intelligence

Attributes of individual directors perceived as important for effective board decision-making included commitment, ethical awareness and high emotional intelligence (EI). Of these, EI was perceived as a defining characteristic of the board.

I would have to say that that I don't think that ego plays a huge part within that board and where it does I think that there's enough awareness of

what's going on that somebody, often me but not always me, will actually find a way of bringing those issues out without, I think- when you're doing things, you know there's the task stuff and there's the relationships stuff and it's always really important to find a way of achieving the task and preserving the relationship. So it may not, it's often not done in a confrontational way. It's a "hey, you know, maybe we should be thinking about this" or something like that, or let me fly a kite here or those kinds of ways of introducing it. [director]

Emotions give valuable information and are “the root of motivation” (Fisher & Brown, 1989, p. 46). Directors were aware that emotional information provided insight into people’s motivation: “*You've got to test that the management team is as emotionally committed to it as we are, and then as a board, I think we've all got to be excited about it.*” [director]

The board appeared to recognise emotions as signifying importance to someone about an issue that may otherwise be overlooked:

[director 7] can get quite emotional...[director 7 would] say, 'you know, you guys are just not listening and you need to understand the impact on this person's home and family situation' and of course [director 7 was] quite right! But in the hype of the matter, some of us more commercial guys get a bit carried away, and we actually don't think of that. [director]

Emotional displays were viewed as signals to be watched for and responded to in a constructive manner. Directors watched for and responded to their peers' signals, and created an environment where directors' and management's emotional displays were 'read' and addressed.

So yes, people can get emotional. I believe we harness that emotion very constructively. I believe we understand how to do that. Body language certainly plays a big part in this board. Like when somebody's getting a bit anxious, you can sort of see their face twisting and you can see them

turning away, you can see way their hands are and hands on their head and crossed the arms and all that sort of body stuff. I think it's all part of team dynamics, you understand it, you appreciate the emotions, and you probably can second guess when somebody is getting fidgety and they're actually disinterested because they've just switched off because they don't actually agree with what you're talking about. Quite unique and it happens with management as well. We can actually read members. I believe the other members probably should be saying, if they don't, they should be talking about that because we can actually sense that and I think, that is the environment is created where you're allowed, you're allowed actually to show those emotions, it's actually not seen as weakness.

Most of the board and executives mentioned their perceptions of good emotional awareness and behaviours within and between the board and management. Along with structure, process, communication and relationship factors already discussed, constructive interactions between board members, and between the board and EMT, were emphasised as significant contributors to the effective decision-making of the board.

Ethics

I think that ethics is actually quite strong.

At the end of the day, you've got to live with your own conscience, not with somebody else's. [director]

At follow-up interviews, when asked about the relative importance and influence of EI and ethics, directors and the CEO asserted that EI was high and at least partially responsible for the board's decision-making success. Ethics was likened by directors to IQ, a given attribute that most boards they served on had, more or less to the same degree. They did see themselves as a board that was commercially aggressive, due in part to the chair ("*He is very aggressive and has a very strong determination to make things happen*"), but not ethically risky:

...There are boards where ...skimming very close to the edge of the law is seen as being smart. And this is not one of those boards. [director]

We've done a number of mergers, acquisitions, takeovers, all of those kinds of things and I don't think you would ever find anybody who's been taken over or bought out or what ever who would feel that they were not treated fairly. I mean there is a commercial reality but there's also that sense of absolute fairness and I think there is also a sense of graciousness sometimes. [director]

The CEO pointed to one director, as being “very strong” on ethics: “[Director] probably adds ...more than any other director... the other directors don't readily pickup because they might be more focused on numbers and other things. So [Director] has added good value to the firm”.

Like emotional intelligence, the level of ethical awareness relative to other boards is unknown without employing an objective measure such as the Defining Issues Test of moral development (Rest & Narvaez, 1994). Anecdotal evidence suggests this is an area that could provide useful insights into board inputs for decision-making.

Commitment

“I would never question that they don't bring their all to the board and have an absolute commitment to the organization” [director].

The board of the [the company] had a norm of commitment:

Well, everyone is committed. You know everyone is committed to the company and I think that that's one of the successes of [the company]. ...And there is only seven of you, so you're working quite hard. You know that the other teams and other individuals are working hard. So it's not

enough to come along and say, oh look, I'm sorry guys, I haven't done anything for the last week because I thought I would just take a holiday down the South Island. [director]

This high degree of commitment seemed to be seen as necessary to the board, especially during acquisition projects when demands on directors' time may have been greater than normal. Feelings of commitment ensured that directors fulfilled their often-demanding responsibilities to the board, which enabled the board to make swift decisions confidently. *"We find it interesting, we find it stimulating. People will read their board papers. People will turn up. People will contribute in a positive way"* [director].

An executive emphasized that the board did read and digest *"the voluminous amount of paper that was submitted. It was obvious they had read it. They took – they asked a lot of very probing questions"* [executive].

The directors' *commitment* to the company may have been reflected by their behaviour in reading through the copious amounts of information supplied to them by the EMT and external advisors.

Summary of Successful Decision-Making Story Factors

The results of the six thematic factors viewed as defining characteristics of the board that contributed toward effective decision-making were:

Task-related:

- a) Structure: decision-making procedures, role clarity, use of advisors (embedding vigilance process) and post decision learning;
- b) Board process: leadership and consensus decision making;
- c) Communication: information sufficient to feel comfortable and confident;

Relationship-related:

- d) & e) Relationships and emotions: safe environment, trust, confidence and comfort, sharing the contrary view, supporting the doubtful director, acting in the best interest of the company, assertiveness, homogeneity and socialising;
- f) Director attributes: EI, ethics and commitment.

Although the reported behaviours and characteristics were categorised into six separate themes, nearly all the factors seemed to be inextricably interrelated. In some instances, segregation for purposes of categorisation appears highly arbitrary as behaviours and characteristics seemed to originate in one category, express themselves in others and influence all or nearly all others. It would be difficult to imagine a board culture characterised by a safe environment, trust within itself and with management, and the intent of acting in the best interest of the company without the supporting factors of board members with adequate EI, ethics and commitment, robust decision-making procedures, and sufficient information to support board members' satisfaction with the process.

Table 5.2 presents a comparison of Hirokawa's (2000) thematic categories and sub-factors and the comparable behaviours and characteristics of the case study board.

Table 5.2: Comparison of Hirokawa et al.'s (2000) and Case Study Company Thematic Categories

Hirokawa et al.'s (2000) Categories	Case Study Company Directors and Executives Success Factors
<p>Group structure Leadership, organization, roles, norms, and goals of the group: e.g., common goals, delegated responsibilities, good leadership, high standards, matched members skills to tasks, division of labour, roles and responsibilities, preparation, shared values</p>	<p>Board structure Decision-making procedures (goal clarity, agree criteria, generate options, evaluate positive and negative consequences of each option), role clarity, use of advisors, post decision learning.</p>
<p>Group process Procedures and activities of the group and its members: e.g., efficiency, highly organized, coordinated effort, effective strategy, flexible and cooperative, examined alternatives, and evaluated pros and cons of all options, worked hard, good strategy, well-prepared, examined all options</p>	<p>Board process Leadership; consensus; vigilance (through use of advisors and multiple models)</p>
<p>Group communication Exchange of information and ideas among group members: e.g., open discussion, good listening, all opinions heard, equal participation in contributions, feedback and positive communication, openness and honesty, effective listening, information sharing</p>	<p>Board communication Information sufficient to achieve comfort and confidence (emotions)</p>
<p>Relationships Interpersonal relationships among group members: e.g., camaraderie, teamwork, close friendships, cohesiveness, supportive relationships and team unity, liked each other</p>	<p>Relationships & Emotions Safe environment; trust; confidence and comfort; sharing the contrary view; support for the doubtful director; acting in the best interest of the company; assertiveness; homogeneity; socialising</p>
<p>Member emotions Feelings and motivations of group members: e.g., fear, enjoyment, pleasure, excitement, pride, trust, overconfidence, etc.</p>	
<p>Member attributes Knowledge and skills of group members: e.g., commitment, dedication, superior skills, ingenuity and creativity, very knowledgeable, lots of experience, and hard-working, high motivation, ability and skill</p>	<p>Director attributes Emotional intelligence; ethics; commitment.</p>

5.2.2 Board Decision-Making Failure Stories

Most people would be happy with our worst performance because it's still a success. [CEO]

This section reports the findings of the interview 'failure' stories. It is followed by findings of the initial interview survey, observed board decision-making, training intervention survey, functional decision-making procedures post-trial survey, and the emotional intelligence test results.

The second question asked at the interviews was:

Think about your most memorable experience of board failure. In narrative or story form, please provide a detailed account of that failure – that is, describe what happened, explain why you think it was a failure, and indicate what contributed to your board's failure. Please tell your story in as much detail as possible

The prompt question was: **What specific factors inhibited board performance?**

When asked about a failure story for a [the company] board decision-making event, most directors and executives said they could not think of one for this company:

We've had nothing really backfire on us on this company... I'm going to struggle ... I mean, as you can probably tell by my enthusiasm, this is a good board, this is a good company. It is no coincidence that this company is doing really well and it's expanding and its profile is rising. To me it is no coincidence at all. [director]

Four of the seven directors could not think of any failure stories for the board but each remembered a 'failure' from another board.

In the failure stories, factors are categorised into the same six themes used for the success story results. A discussion of each factor follows along with illustrative quotes.

Structure

In contrast to the successful decision-making stories, the failure stories contained references to board structure regarding inadequate preparation, inadequate resources possibly due to lack of contingency planning, and ignoring agreed criteria.

Inadequate preparation

A director told of his experience on another board trying to expand the company into new territory: *"I think perhaps we didn't do enough research...that was a decision that in hindsight was wrong. We went too early."* The board *"was probably slack checking"* on the background of a director appointment in the new territory. *"He came onto the board and that put all the local people off.... And I think that was the bad decision."* The company was forced to close the new site and lost both money and goodwill through inadequate preparation. *"I think, perhaps we didn't do enough research, the way things are happening now, we could perhaps be back in [the same city] within six months" [director].*

Inadequate resources possibly due to lack of contingency planning

Several directors, the CEO and an executive told of the time where the case study company acquired several companies during the same period:

The team that did the acquiring and had the vision of rolling the four individual companies into one big company, they were our business development team... they had no sooner acquired these companies and started on the rolling together process than the big opportunity came up

...we took that business development team off and left other people to do the rolling together [but] because they didn't have quite the same vision [and] the people that had the vision weren't there to do the executing. And so the executives that were left or the people that were left to put that together didn't do a good job and so the board had been very unhappy.... they're [the acquired company] on their third set of executives so we're coming to the end of that [trial] period. [director]

The board went to the site to:

... smell, touch, see who we've currently got as the executives, see the actual environment. Why had the turnaround taken so long? Why was there all these so-called environmental problems? Why we just couldn't get it together- we just wanted to make sure we had the right people and that progress really was being made before deciding- well did we cut it as at [date] which is the end of the 12-month [trial] period or do we give it another extension of time? [director]

Directors and executives considered the project “*less than successful*” but when queried as to what about the board’s decision-making led to this “*less than successful*” decision, the directors and CEO insisted that given the same information, they wouldn’t do anything different. No one voiced that perhaps some contingency planning for occasions when two or more attractive opportunities arise could improve the chances of making the situation more successful. Boeker (1992) found CEOs with considerable informal, reverential and formal power often attribute poor performance to external factors and influence the boards to do the same. This may be an instance of the board and CEO attributing poor performance to external factors outside their control.

Ignoring agreed criteria

The CEO made a reference to a decision where one of the key criteria (“*principles*”) which had been agreed by the board, was at the last decision-making

moment set aside. In his view, the resulting decision was less than satisfactory due to disregard for this criterion:

The principles were rated against the number of factors and why I thought a poor decision was made because they vetoed one of our key principles... with the advantage of hindsight I think that's been, you know, I think that was the wrong decision to make. [CEO]

An executive may have been referring to the situation when he told of the time the case study board “vetoed one of our key principles.... this scenario was really around the risk... to ongoing cash flows. Now I felt the decision they made to veto the principle to go for a consolidated price had no basis. I felt that personal opinions of the board dominated that decision over what was best for [the company]. I didn't see that there was any benefit in terms of minimising risk to [the company].

Similarly, a director told of his experience on another board, where the ‘original’ director selection criteria were ignored and the decision was made on some other basis:

I did ask [for] the criteria and it was given to me.... [the decision made] wasn't on the original four criteria. And so they decided on some other grounds and to me- I mean the reason I'm using this as an illustration is that, see, I'm unhappy with that group, because I think they've been dishonest to their principles and integrity. You say 'here are the four criteria' but in fact your decision was made on some fifth and sixth criteria.... I have this suspicion now that the majority wanted this particular candidate. It's left me with all these horrible suspicions in my mind...that this person they've selected is of their mindset, that they will find that person malleable, they may have been uncomfortable with the younger person [who] may have been too energetic or too inquiring. But they've gone for the non-factor, the more malleable factor, and to me, I think we have ended up with

*a poor decision and I feel uncomfortable and that is going to irk me.
[director]*

When those in control (directors) don't follow the principles they have agreed to follow, an explanation of why other criteria were used is needed or followers (management and staff) may distrust those in control and disbelieve their commitment to the principles and the transparency of the process.

Board Process

Leadership

Leadership is an input that can influence, for better or worse, the decision-making process (Janis, 1972). Stories of leadership 'failures' all came from directors' experiences on other boards.

*In terms of the process, there was not- I mean, I would have been quite comfortable to have raised it, but room was not made for that to be able to happen. It was very tightly- the chair controlled the process very tightly.
[director]*

This chair controlled the board to the extent that he spoke on behalf of the board. *"The chair usurped the decision-making function of the particular board... the chair made a premature decision"*[director].

In one situation, the board was trading information in anticipation of a merger and thought it was not getting truthful information from the other board. A director argued, *"If we're going to have ongoing relationship with these people, we need to be very clear about what our expectations in terms of honesty are. It was agreed that that would be addressed and then come to it and it's too hard to do it.... I felt let down by the chair"*. The chair speaks for the board (when authorised to do so) and can enhance or detract from the board's effectiveness when implementing a board mandate.

One director told of a poorly performing CEO with an employment condition that meant a large payout should he lose his position for other than performance reasons. *“It happened on this board. It had been going for years”*. The board chair was ineffective at performance management. The board *“was aware of the issues, was taking up the issues, was talking to the CEO about it, [the chair] was pointing it back to the board that I've been taking this up with the CEO and raised these issues with him and I've now got some agreement that we're going to work at doing the following things....”* [director].

However, a resolution did not come until *“an opportunity”* arose:

Eventually the board changed in composition, got some people on there and said, we're not going to be managed anymore by this guy, he's gotta go...I think everyone wanted to actually fix it ...anyway we had a change of chairman because the previous chairman died. Gave us an opportunity.
[director]

This example shows how the director was only as effective as the chair of the board allowed him to be. On the case study company board, under the “benign chairmanship”, the director was confident and outspoken (pushing back at the chair when necessary). On the chair-dominated board, the same director was unable rebuke the chair for ineffective performance management of the CEO and remained a dissatisfied member of that board until the board leadership changed.

Majority rules

In the same story related in the sub-section titled *Ignoring Agreed Criteria* above (where the board decided on a new director appointment using criteria not originally agreed to by the board), the director told that the chair and the CEO *“arranged the votes”* to get the particular person they wanted onto the board.

To me there was a couple of breakdowns: One is that ...agreement couldn't be reached through consensus, and to me, there was an unwillingness between the people who had the power...that were running the meeting, instead of trying to seek consensus and that may have taken another

meeting, they drove it through to get the candidate they wanted, all right. ...The people who were controlling the meeting had already made up their mind who they wanted. They had organized the numbers in advance and hence they weren't prepared to let another month- cause to me it wasn't catastrophic that it waited, I mean this particular entity already has 17 members and this was taking 17 to 18, so it wasn't as if, you know, there was a gap and it had to be filled immediately.

The director compared this board decision-making process to the case study company board process:

Now again, certainly [the chair] would not drive-through that decision and ...we all turn up at the next board meeting to find that this person has been appointed.... because he heard the genuine concerns, that he will work to try and ameliorate that or reflect on it in another month and it's not critical, another month? It's just to make sure everyone's on board. [director]

Directive leadership, strongly criticised in the literature as an antecedent to *groupthink*, poor group performance and group member dissatisfaction, appears to have been instrumental in the failure story. “*This other [chair]... drove through the decision and ended up an unhappy group. I mean I'm unhappy because I think we've done the organization a disservice. We've got the wrong person*”[director]. Not only did the director consider that the ‘majority rules’ approach had been used in a way that allowed a perhaps ‘premature’ decision to be made, but in doing so, the chair alienated the board member who felt dissatisfied with the decision, the decision-making process and the leadership of the board.

Offstage manoeuvring

One executive told of an instance of 'offstage manoeuvring' on the case study board:

One particular person who wanted to pigeon hole their fellow directors to sort of almost – factionalise isn't the right word- but get a clique that would

obviously support their view ...Which we hadn't really seen a lot of and the board doesn't really do that per se as a collective.... I just think it's a case of that person had a view, having talked it over with people outside of the company and outside of the fellow directors over the weekend – formed a view on the basis of some short talks with people, as I said, outside the company and thought that was the way to go.... it was an issue where a lot of others didn't have a strong view one way or the other. A number of others [directors] would look at a combination of [the chair] and this particular director to sort of provide guidance on the point, so they were looking and obviously the two of them didn't necessarily agree first up.... [ultimately] where they got to was right. It was just, it was quite uncharacteristic, and the reason I've highlighted [it is] why I didn't think it worked so well – it is uncharacteristic in that they tried – there was that element of manoeuvring beforehand to try to buttonhole certain people to sort of 'do the numbers' I suppose. Not in such an open way. Not since either.

[Researcher asks, “Why do you think it occurred this time?”]

Um, obviously size, lateness of it because it was such a fluid deal – it was happening over the weekend and that meant the only time to buttonhole people was either Sunday night or Monday morning before the meeting which obviously meant that those of us who were there Monday morning before the meeting got to see it happening.

[Researcher asks, “And have you ever seen or experienced or suspected that that sort of pre-meeting manoeuvring goes on?”]

Um, no not really. They don't seem to generally do that. [director]

Communication

Biased information

I have been on a board where I have had concerns that the board was only being told what the CEO wanted to tell the board.... The feeling that I don't know whether I'm getting the whole story here. I think I'm getting three quarters of the story, and everything I really know about this is coming from the one source, and how the hell do I actually check this out and, - that balance which a board needs in terms of the good and the bad of a particular subject is probably critical to the success of a board.... one of the most disconcerting things on a board is actually to catch the management out... I find it very frustrating if I believe there's almost, almost a conspiracy ... afoot from the management side of things, simply because the CEO has also basically put the other management team members into a- into his particular straitjacket, and he is delivering his view of the world, and is expecting that the board will on all occasions, simply ratify or endorse his recommendation. Now it is the role of CEOs to manage their business; and, it is the role of CEOs to come forward with recommendations; and, it is the role of CEOs to obtain the loyal support of their staff. But once you step across the line to where the board is not sure whether it's getting the full picture, that's the process- if you want a process which is fundamental to a board losing confidence in its management, or the board losing control of its business, that's where it happens...[director]

This experience of biased information and the resulting loss of board confidence (trust) in management exemplifies the 'vicious cycle' (Roberts & Stiles, 1999) that contrasts to the 'virtuous cycle' of relationship building, a theme repeated in the literature and consistent with the results of this study.

Relationships and emotions

Pandering to a grandstanding director

Several executives recalled the same extended decision-making session directors used as an example to describe a positive board norm: *support for the doubtful director*. However, executives used the example to illustrate a failure issue for the board. Whereas directors viewed the time and effort spent allaying one director's concerns as supportive, executives viewed the time and effort as *pandering to a grandstanding director*.

It was a meeting that went on for something like eight hours and one person on the board got isolated from the group and took a stand and dug a hole for himself and the rest of the board were gutless in telling him to get real. And instead of saying, 'Thank you, appreciate your concern, I'm going to call it to a vote and six votes yes and one voted no', they spent three and a half hours trying to use every technique under the sun to give this guy a way out of his hole without looking embarrassed.... Well this guy ranted and raved – the chairman let him go because it was a valid point. Everybody had a bit of a say but he went so far – he got so wild, he was really angry with the advisors. It was like, 'We'll never use these advisors again – we're going to kick these guys out! And, I'm sick of them! Blah, blah, blah....' Everybody else is sort of saying 'Yeah, yeah, yeah, but we've got to...' – he dug himself such a hole he couldn't get out of it without losing face. He was actually going to have to then turn around and say, 'Well, I actually don't feel that strongly about it really. I'll just let it go.' So they were trying to find [a way to save face] – what they were all starting to do was trying to say oh, yes, we agree with you, and it's a really good point, but maybe if we did it this way...they were trying to find alternative solutions that were really pushing it, and everyone knew they were pushing it, but in the end, they found enough of a half-baked – it was really quite pathetic- solution. It was really no different than just giving in and saying 'we'll live with it'. They got him to the point where [he said], 'I suppose that's what we have to do but I

don't like it'...They concocted almost- like an artificial escape route- whereby he ended up voting for it, but there were a few things that were to be done, like a letter of protest to the bank, saying [the case study company] was not happy. That was going to do nothing, and it was minuted that- this was unacceptable! And we'd not be using [this bank again]! We would- you know- da, da, da, da...

This was the only instance where directors' and EMT views on the same experience differed, and the difference was dramatic. Perhaps when one is a part of a group, and takes responsibility for maintaining group cohesion, the need to tolerate, and even support the right to differing views and to 'save face' of group members can outweigh the need for expediency and directness. Likewise, when one is outside a group, looking on, these behaviours may appear to be egocentric constraints further constrained by affiliative constraints (Janis, 1989), resulting in a face-saving solution that is at least, short of acquiescence and at most, safeguarding and securing the substantive issue.

Director Attributes

Self-interest

One director told the story of another board, who when confronted with a potential merger, acted in a self-interested manner contrary to a director's duty of loyalty:

Individuals didn't quite have the best interest of the company in their mind at all times. They probably didn't even consider maybe adequately enough what the shareholder wanted to do and perhaps where they wanted to head with their shares.... And as the discussions progressed, individualism started to emerge... I have to say some of this comes from management. That's important. I've spoken about the board but I actually forgot to talk about some of the senior managers who are actually advising the board on whole heap of stuff, and from the very top, in terms of the senior executive. You know they could see that they may well miss out too you see it was actually quite unhealthy ...self-interest took over. [director]

Directors weren't interested in how the company and shareholders would fare from the merger but showed "*greater concern for whether or not an individual is going to lose their directorship....*" The board and management "*could see that they may well miss out...self-interest, started to emerge.... they were thinking about their ongoing directorship role...people need to live and they need to have fees.*"

When "*self-interest took over and they weren't able to get over that*", the director found it necessary to take the issue "*offstage*". "*Now when you've got to start to play offstage, in other words you can't actually play your game within the boardroom and you've got to think, well this is going to go sour and it's not going to go sour for the right reasons, then of course you force individuals outside the, offstage don't you, and you start to set up plays around and you start to lobby, you start to, uh, things are not quite so transparent because you want to bring pressure to bear on those directors in the board, around the boardroom*" to try to get the board and management to fulfil its obligations of acting in the best interest of the company.

Taking a board issue 'offstage' was an undesirable practice in the eyes of the director.

I could see a lot of undesirable practices. I felt uncomfortable. I felt let down by some of these members when it comes to the crunch. There been no evidence of this in the many other deals to be done but when it come to the real crunch, it- it started to emerge, and that was very destructive, and most unhelpful, and certainly wouldn't have enabled us to go forward without some of those offstage plays...the shareholder had to put a bit of pressure on some of these individuals in terms of saying, well, we'll just call an extraordinary shareholders meeting and we'll sack you all [laughs] and we'll get some directors in there who actually can work through this a little differently. [director]

The merger was finally accepted by the board; however, *“Those individuals did themselves a disservice as well because, you know, others see that and of course you know, where they may well have been invited to participate in a merged board, they clearly weren't. It doesn't matter, irrespective of the skills that some of them undoubtedly had. Why? I come back to that stuff we've been just talking about before: The chemistry would never have worked. That person wouldn't have had the right sort of personal skills to work in the way that I've described [the company board] working. [director]*

Again, as in the example of directors' views of supporting the doubtful director and executives' views of pandering to the grandstanding director, it is interesting to note this director's view that offstage manoeuvring could not, does not happen on the case study board, whereas in section 5.2.2.2.3 above, an instance of offstage manoeuvring by someone on the case study board was perceived as having occurred.

Ego

One director told of a chair who *“was nearing the end of his term as a chair”* and wanted to *“do the grand deal and wasn't going to let something stop him from doing the grand deal”*. The director thought *“there was some ego stuff going on with the chair”* as the chair acted in ways that advanced his ego-satisfaction but was viewed by the board as unacceptable, unilateral grandstanding *“And so I absolutely think that ego got in the way”*.

In another situation, two companies were discussing a merger and the other company *“had more resources...so that there was an unequal power balance”*. Several of the directors on the less powerful board struggled through board meetings trying to find ways to “win”. These “fixed-pie” perception directors *“who hate to lose, who wouldn't necessarily see that a good decision is one where you can talk it through and find something that works for both parties”* found it difficult

to think and act in terms other than being the “winner” or “loser”; and being the loser was unacceptable.

These are examples of what Janis (1989) classified as egocentric constraints that result from a group member’s need for control or other ego-gratification behaviours. Under the influence of egocentric constraints, directors may have a win-lose orientation, which can lead them to push for acceptance of their preferences using imbalanced criticisms of alternatives and exaggeration of advantages of their preferred solutions. It is incumbent on directors and especially the chair, to recognise these behaviours and act to neutralise their impact on board process.

Incompetence

A director tells of sitting on a board where a non-merit director was appointed “*not because they have some of those attributes, but simply because they are representing some interest that the minister wants to have represented and they add nothing. They contribute nothing. And I've almost been embarrassed about, about the fact that they have difficulty contributing, and that almost becomes an embarrassment for the rest of the board, because they are embarrassed, and so you get a bit embarrassed because they are obviously not up with the play and don't really, never really looked at a balance sheet in their lives, don't understand*” [strategy or how to use financial indicators to monitor performance]. The lack of skills or knowledge was described as a cognitive constraint (Janis, 1989).

Recognition by other board members of the cognitively constrained director may lead to discounting of the director's views and potential contribution and a diminishing of cohesiveness and other constructive board relationship factors.

Summary of failed decision-making story factors

The interviews exploring factors that contributed to failed board decision-making revealed these results:

Task-related factors:

1. Structure: Inadequate preparation; inadequate resources possibly due to lack of contingency planning; ignoring agreed criteria;
2. Board process: Dissatisfaction with decision, the process and the board;
Directive leadership, Majority rules, Offstage manoeuvring;

Relational factors:

3. Communication: Biased information;
4. and 5. Relationships and emotions: Pandering to the grandstanding director;
6. Director attributes: self-interest, ego, incompetence.

Table 5.3 presents a comparison of the thematic categories and factors directors, the CEO and executives thought contributed to successful and unsuccessful decision-making by boards. Note that the majority of the successful factors came from case study examples, whereas only two factors (off-stage manoeuvring and pandering to the grandstanding director) of the factors contributing to decision-making failures were from the case study company. There is some correspondence between factors (e.g., directive leadership and leadership; self-interest and ethics; biased information and information sufficient to achieve comfort and confidence), which may indicate the potential for a constructive and destructive aspect to these factors and perhaps even a neutral degree or level that neither contributes to nor detracts from decision-making.

This concludes the failure story interview results report. Section 5.2.1 reported the success story interview results. The next section, 5.3, reports the findings of the initial interview survey. This will followed by reports of the observed board decision-making (5.4), training intervention survey (5.5), functional decision-making procedures post-trial survey (5.6), and the emotional intelligence test results (5.7).

Table 5.3: Comparison of Factors Contributing to Failed and Successful Decision-Making Stories

Failed Decisions	Successful Decisions
Board structure	Board structure
Inadequate preparation; Inadequate resources possibly due to lack of contingency planning; ignoring agreed criteria	Decision making procedures (goal clarity, agree criteria, generate options, evaluate positive and negative consequences of each option); role clarity, use of advisors, post decision learning.
Board process	Board process
Dissatisfaction with decision, the process and the board	Vigilance (through use of advisors and multiple models)
Directive leadership	Leadership;
Majority rules	Consensus;
Offstage manoeuvring	
Communication	Communication
Biased information	Information sufficient to achieve comfort and confidence (emotions)
Relationships & Emotions	Relationships & Emotions
Pandering to the grandstanding director	Safe environment; trust; confidence and comfort; sharing the contrary view; support for the doubtful director; acting in the best interest of the company; assertiveness; homogeneity; socialising
Director attributes	Director attributes
Self interest	Ethics
Ego	Emotional intelligence
Incompetence	Commitment

5.3 Initial Interview Survey

After the initial interview, directors, the CEO and executives filled in a survey ranking the six factors (themes) from Hirokawa et al.'s (2000) narratives study as to the relative contribution each made to the participant's decision-making success story and decision-making failure story.

In hindsight, ipsative ranking is less desirable than rating as the ability to draw comparisons was weak at best. Ipsative measures are orderings rather than measurements, therefore a correlation coefficient could be computed. Normality

implies certain properties of symmetry and spread, therefore a normal distribution could not be assumed. The data may be from a distribution that is skewed; therefore distribution-free data analysis methods were appropriate. Non-parametric testing could be made if no assumption was made with respect to the specific form of the distribution measurements (Krauth, 1988).

Director responses are reported separate from those of the CEO and executives. A one-way ANOVA using Excel Data Analysis of the six thematic categories (Hirokawa, 2000) was used to analyse the results of the initial interview ranking surveys. Respondents were asked to:

Please rate in order of importance/contribution the following possible factors in your board success story and your board failure story:

1 = most important/contributed most to outcome

6 = least important/least contribution to outcome

5.3.1 Directors' Success Factor Survey

Overall directors ranked and related success stories but the in the same order as Hirokawa's narratives. Directors ranked structure and process as "most important/contributed most to outcome" (means of 2.3 and 2.6) and member emotions ranked "least important/least contribution to outcome" (mean 5.1).

Table 5.4: Survey of Directors' Success Factor Contribution

Factor/Theme	Mean	Standard Deviation
Structure	2.3	1.6
Process	2.6	1.7
Communication	3.1	1.1
Relationships	3.7	2.0
Emotions	5.1	1.2
Member attributes	4.1	1.3

5.3.2 CEO and Executives' Success Factor Survey

The CEO and executives ranked structure, process, and communication as “most important/contributed most to outcome” (means of 2.8, 1.2 and 2.8). Member emotions and relationships ranked “least important/least contribution to outcome” (means of 6.0 and 4.6).

Table 5.5: Survey of Executives' Success Factor Contribution

Factor/Theme	Mean	Standard Deviation
Structure	2.8	1.7
Process	1.2	0.2
Communication	2.8	0.7
Relationships	4.6	0.8
Emotions	6.0	0.0
Member attributes	3.6	1.3

5.3.3 Directors' Failure Factor Survey

Directors ranked emotions as “most important/contributed most to outcome” (mean of 2.6). Member attributes ranked “least important/least contribution to outcome” (mean 4.7). There is considerable overlap in the confidence intervals, which suggests that there is not a strong claim to be made.

Table 5.6: Survey of Directors' Failure Factor Contribution

Factor/Theme	Mean	Standard Deviation
Structure	3.7	1.7
Process	3.0	1.7
Communication	3.3	1.5
Relationships	3.7	1.5
Emotions	2.6	1.8
Member attributes	4.7	1.9

5.3.4 CEO and Executives' Failure Factor Survey

The CEO and executives viewed process and structure as most important and relationships and member attributes as least important in board decision-making failures.

Table 5.7: Survey of Executives' Failure Factor Contribution

Factor/Theme	Mean	Standard Deviation
Structure	3.4	0.3
Process	2.8	1.7
Communication	3.6	3.8
Relationships	3.8	1.7
Emotions	3.0	7.5
Member attributes	4.4	4.8

Overall the Initial Survey, which ranked the contributions of the six thematic factors, indicated that task factors (structure, process and communication) contributed more than relational factors (relationships, emotions and member attributes) in both success and failure rankings.

Sections 5.2.1 and 5.2.2 reported the success and failure story interview results. This section reported the findings of the initial interview survey, and 5.4 reports on the observed board decision-making. This will be followed by sections 5.5 to 5.7 on the training intervention survey, functional decision-making procedures post-trial survey, and the emotional intelligence test results.

5.4 Direct Observation of Board Decision-Making

One objective of the case study was to observe, report and analyse decision-making procedures directors *actually use*, and to compare this with procedures that directors *say they use* (interviews and surveys), and to compare these with procedures they think they *should use* (post-training and post-trialling surveys).

The board agreed to the researcher's presence at a board meeting, as the need to observe and note whether or not they were already using the decision-making procedures that would be presented in the training was explained and accepted. The board agreed that the researcher could observe and take notes (but not voice record) during a portion of their May 2004 board meeting. As an observer, the researcher sat at a separate table at the back of the room. Observer notes recorded who spoke and the gist of each statement: identification of the problem, criteria for a good solution, solution options, evaluation of positive and negative consequences of each option, assertion of fact, or statement of opinion or preferred option.

The discussion topic was raised by the Audit Committee Chair, who questioned whether the same accounting firm should continue to provide both audit and consulting services (non-audit) in light of current trends to separate these functions. Discussion points raised included the potentially adverse market perception of an inherent conflict due to lack of independence on the part of the auditors; the belief that the current auditors are also the best advisors available in the geographic area; the business can't be run according to other people's perceptions and it may only be a vocal minority objecting; and decisions should be based on facts, not other people's perceptions.

The chair remained quiet during much of this early discussion where directors voiced their support for changing, because "*it's the right thing to do*", or maintaining the status quo, because the company's auditors also provided the

best advice available in the local area and the perception of conflict could be explained. When the chair did speak, he made it very clear that he did not want to remove any of the work from the auditors as they were the best technical advisors in the region; separating the work would involve additional costs to educate new advisors or auditors, and the perception issue was not an issue, or if it was, should not be the basis for changing how they operate. After the chair's declaration, the discussion seemed to slow and the Audit Committee Chair seemed resigned to not getting the change, but continued almost painstakingly repeating the same arguments, as did the other participants in the discussion. No executives spoke, nor did the CEO.

After nearly an hour of the same arguments (perception problem versus potential costs and quality of advice), it was decided that additional information was needed before any decision could be made. Management was instructed to prepare a paper with all the facts of the situation to aid the board in deciding what to do.

Several weeks after this observed board meeting, two of the directors and the CEO were again interviewed, following up on comments made in their initial interviews and specifically asking their views of the observed board discussion. One director had discussed the observed board meeting session with the CEO and they had agreed that it was not 'typical' of the board:

I had the sense that the board were ducking.... we would normally be jolly decisive. And we would be far more pragmatic. I mean what we would be doing, would be to say, here are all the issues and all those issues would come out on the table, and we would look at the philosophical issues, I mean, lots of ethical issues around that, and then we would very quickly move to quite a pragmatic perspective and when I say pragmatic, I guess what I'm saying is that an ability to take the whole mix and come to a conclusion... but I was just really interested that we just went round and round and round and round and round without- and, because normally- I had the sense that what we were doing was going round and round in a

spiral that kept getting bigger, whereas normally we'd start at the big bit of the spiral and converge into the middle....where there is a bit of the moral component to it that it does tend to go round and round a bit until people reach a level of comfort....we had run one round and then another round and people weren't saying anything markedly different from what they'd said before. [director]

The experimenter effect is well known and must be considered a potentially induced bias. Participant conspiracy (where subjects conspire to present to the researcher pre-agreed behaviours and responses) can also bias findings. One director's admission of a board discussion the evening before observation of the board decision-making seems to point to potential conspiracy bias.

Now I have to tell you that the night before we had talked about what would be really good things to discuss while you were there [researcher] and [director laughs] because we did feel that it was really important for you that you were able to see us doing things.

Further discussion indicated that the extent of pre-agreed responses and behaviours revolved around the confidentiality aspects of the subject the researcher would be privileged to hear being decided.

And I think you know, had we said, had we been making the decision about the new computer system at the previous board meeting, that would've been perfect for you. But we thought well, yep, the audit one is something that can absolutely be in the public arena. There'd be no problem with your putting any of that out there. [director]

The researcher questioned whether her presence might have influenced the 'typical' dynamics.

No I don't think it had anything to do with the fact that you were there. I think people were conscious of the fact that- I mean, the previous night, we

talked about, you know, what were some of the issues that really needed to come out so that you could get an idea of the way that we do bring issues out. And so I think that people were trying to make sure that a lot of the issues that we felt were important that you needed to hear being talked about had come out. In terms of not wanting to make a decision because you were there? I don't think that was it at all.[director]

The researcher pursued the impact of her presence and asked the director to elaborate on any and all differences that might be attributable to her presence.

I think we were all a little bit restrained in terms of some of the things and I think did I pop in the e-mail that possibly if you hadn't been there, I would've made jokes about the fact that you know, this was a really wonderful experience for the men because the room was so hot that they were getting to understand what it was like for women to have hot flushes [researcher laughs]. And we made those jokes after you'd gone and I mean, it was just sort of a big joke and, and I'd sort of thought, I don't want to interrupt the flow of what's going on while you're there and I just- so I didn't say those kinds of things. But I did say it once you'd gone. So and that may have changed the dynamics a little, but I don't know, I don't think it did. I mean I think there were- while you were there, you did see quite a number of examples of us all laughing together [director].

The use of humour was emphasised in the interviews by this same director “something that characterises that board- that we do laugh quite a lot” and one other director:

Sometimes a bit of a joke is a circuit breaker. I actually like chucking in a bit of humour into the meetings... you can feel when it's getting a bit strained and just sort of chuck in something as a bit of a circuit breaker; it's often not a bad thing to do. [director]

We laugh a lot. I think that that's actually really important. Every really good board that I've been on, they laugh a lot. That we will, I mean there are often jokes. I think "in" jokes are something about bonding together too. It's about, you're really part of the group when you can be part of that joke.... there is a lot of laughing, and then moving on. And I think one of the things that does is that, um, you know being on a board is hard work; it's very hard work. Just to break that and laugh and release tension and move on is really important. [director]

Gender-based humour was viewed by the board as appropriate. In addition to the comments about menopausal hot flashes made at the observed board meeting, the same director spoke of this category of humour as an “in-joke” and an accepted method of providing feedback on behaviours to other directors.

One of the things that the men and I joke about is that every time they get really aggressive, that I joke with them about their testosterone-based decision-making.... [Director3] not long ago ... said, ' you know it's just the most wonderful way that a woman could have ever said to us; hey you're getting too aggressive'. If I had said look, I think you people are getting too aggressive, you're going too far, the backs would have got up. When I talk about testosterone based decision-making, which is become a sort of in-joke on the board, everybody laughs and moves on but the point is made. I think it says something that they also make odd comments if I say that, they'll be comments come back about, is this just PMT talking or what's going on?

The CEO thought the outcome of the observed decision-making session was not surprising:

I could've predicted for you beforehand exactly what was going to be said and who was going to say it, because this is part of our corporate memory. That's been around for a while. It's one issue, the only issue, that's never been resolved to the point where it can be forgotten.

The CEO views it as *“the perception versus reality argument; the quantifiable stuff versus the touchy-feely stuff”*. To the CEO, the criteria should be *“about risk and value to the company, that’s the starting point and so what’s happening is people are just starting on different platforms about what’s important to them”*. The *“different platforms”* are the differing criteria directors were using to make their claims about the problem. The discussion was circular as the board argued over which criteria were valid. Until the board agreed which criteria a good solution should meet, the board could not move on to evaluating the proposed solutions (status quo or separate the provision of audit and other consulting services) against the agreed criteria.

In the interviews, that kind of converging that would normally happen...all of us are really good at synthesising some of what’s been said, that there’s extremely good listening goes on in that board, that people put out what they want to say and fly kites and all sorts of things and then we seem to go through a process where people gather up a few threads and pull them in, and then the next person will pull in a few more threads and we, we just naturally converge.

Perhaps the board’s ‘natural convergence’ was stymied by the strong position taken by the chair during the discussion?

I don’t think that would’ve had a lot of impact either one way or another on the board and I’ll tell you why: because the chair’s position on this is well known. He’s always wanted to retain that particular firm in doing both issues and he’s been the one who’s been the aggravator of continuing the status quo. So his position wasn’t a new position. It was an old position that we’ve heard all before.

Board members said they recognised when the chair was using his position to promote his views:

Chair probably has a little bit more power than the rest of us in terms of controlling the meeting...interestingly [chair] was also trying to use his position as chair to rule out the criteria that actually went against the way that he wanted [the decision] to be made.

There are occasions like the one that you observed the other day as a sort of an example. It's not a sort of a 'do or die' example, but it is an example whereby as chair he demonstrated his preference for the issue.

When the chair does 'occasionally' uses his position to promote the solution he prefers, directors are aware of this behaviour and "*other individuals around the table saying, "No, we're not going to just roll over and be pussycat on this particular one."*

One director recognised that the discussion of criteria was a process issue that required resolution to advance the decision-making process.

I think, I mean I certainly thought about whether I should say, well you know, let's just think which of these things are valid and which are not, and that is a role that I play from time to time, is to actually bring up questions of process.

Regrettably the researcher did not follow-up this comment to probe why the director had not spoken out in this instance and in others.

Given that the board was reportedly "usually decisive", why hadn't this issue been resolved? The CEO saw the issue of perception as "*the deepest part of the personal attributes that each of the directors might carry with them. So it's the deepest part of the heart...they're trying to get a collective outcome on... because we are dealing with the most difficult of observations and that's about the concept of perception."*

At the conclusion of the board discussion, it was agreed that management would present a paper to the board with more information, which they hoped would enable them to make a decision. The CEO however, appeared unconvinced as to whether the additional information would break the deadlock.

They agreed on a process to go through, which is a neutral zone that everyone can live with for the time being until we get some more facts which the process delivers, then we'll have another debate [laughs] at the end of that one. [CEO]

Breaking the deadlock of non-converging views is the purpose of the board's seeking more independent views and information: the people who want to have a change would be happy with the process because hopefully it might reveal that, it won't cost anymore to the company, it won't be any more risk to the company therefore we can change it and therefore we can get a good perceptual outcome as well as a good factual outcome [director].

However, the board had already taken independent views on this issue and the CEO did not sound convinced that more information would resolve the problem. One director indicated that after the management paper, even further advice might be sought should the board still be split in its views.

If there is still a strong view against either status quo or doing it another way, that there may well be some further independent advice taken to try and break that deadlock... although we have taken independent views on it, and at the end of the day, it comes down to well, how much more information can we get on this? [director]

This “no-holds’ barred” effort to get consensus is typical of the board who views ‘voting’ as an occasional legal requirement that is otherwise not an accepted decision-making method.

The only time that we had votes on anything is if there is a companies office requirement or Companies Act requirement that you need to vote on this kind of thing. [director]

The observation stage of the research failed to produce an independent observation of typical board decision making because the board chose a non-typical issue to discuss - apparently the only one (according to the CEO) that has never reached a resolution. It was unlikely to yield a decision in this instance because there was no new information added to break the historical deadlock. The director who recognised the need to set and agree criteria (*let's just think which of these things are valid and which are not*) did not speak out. This intervention might have progressed the discussion, which ultimately yielded no decision (again). However, the observation and subsequent interviews did reveal interesting data regarding board process, which will be discussed in the next chapter on key findings.

Thus far the chapter has presented the success story and failure story interview results, the initial interview survey results, and the observed board decision-making. The next three sections of the chapter report on the training intervention survey (section 5.5), the post-trial survey (section 5.6), and the emotional intelligence test results (section 5.7).

5.5 Training Intervention and Post Training Survey

Training in functional decision-making procedures took place at the June 2004 board meeting. The board required the training session to take no longer than 30-45 minutes. Several executives attended along with the full board. A PowerPoint presentation (Appendix E) was prepared as well as a Checklist of Prompts for the Reminder (see Appendix F).

Immediately after the training intervention, attendees filled in a Post-Training Survey (Appendix H) to gauge the level of understanding. The board then took a lunch break during which conversations turned to non-business topics. Results of the Post Training Survey are below in Table 5.8. The post-training survey data

was analysed using Excel Descriptive Statistics analysis tool. This produces a report of univariate statistics for the raw data, providing information about the central tendency and variability of this data.

Table 5.8: Post Training Survey Data Results

N = 9 for all responses

	Min	Max	Mean	Median	Mode	SD
To what extent did you:						
Fully understand the FDMP?	2	5	3	3	2	1.118
Fully understand the 3 constraints?	2	5	3.44	3	3	0.882
FDMP be useful for your board?	2	4	3.22	3	4	0.833
Your board already uses the FDMP?	2	5	3	3	3	1
The use of a Reminder could improve your board's decision-making discussions?	1	5	3.22	3	3	1.302
You might employ the Reminder 'prompts' in future board discussions?	1	5	2.78	2	2	1.302
Agree that the assumptions underlying the functional theory are met by your board?	2	4	3.22	3	3	0.667
Believe your board would benefit if board adopted FDMP?	2	4	3	3	3	0.707
Identify and assess the problem	3	5	4	4	4	0.5
Generates alternative proposals	2	5	3.67	4	4	0.866
Agree objectives to be accomplished	3	5	3.78	4	4	0.667
Evaluate positive and negative outcomes of each alternative and satisfaction of objectives	1	4	2.78	3	2 and 4	1.093
One or more members of the board is capable of recognizing and interpreting the signs of unwanted cognitive, affiliative and egocentric constraints?	1	4	3.11	3	3	0.928
Presentation content was valuable to your board?	3	4	3.56	4	4	0.527

Overall, directors and EMT members indicated the functional decision-making procedures would be useful for their board ($M = 3.2$, $SD 0.83$); their board would benefit from adopting the functional decision-making procedure ($M = 3.0$, $SD 0.71$) and that their board already used these procedures ($M = 3.0$, $SD 1.0$).

The greatest agreement was about the board's practice of identifying and assessing the problem ($M = 4.0$, $SD 0.5$) and the value of the training to the board ($M = 3.56$, $SD 0.53$). Least agreement was about the value of the Reminder role to improve the board's decision-making discussions ($M = 3.22$, $SD 1.3$) and the likelihood of future use of the Reminder prompts ($M = 2.78$, $SD 1.3$).

Overall the board thought that the training was valuable; however, to a large degree, directors and EMT members felt that the procedures were already in use (written comments on the survey stated this) and the value and likelihood of using the reminder role and prompts was not high.

This concludes the report on the training intervention survey. The next section reports the results of the survey filled in by directors after trialling the functional decision-making procedures. It will be followed by section 5.7, which reports the emotional intelligence test results.

5.6 Trial of Functional Procedures and Post-Trial Survey

Trialling the functional decision making procedure occurred at the August 2004 board meeting, two months after the training session. Three directors were sent the Reminder Prompts Checklist (Appendix F) and asked to serve as reminders. The role of Reminder was to ensure that the board adequately satisfied each of the functional tasks.

After the trial, directors and attending executives filled in the Post-Trial Survey. The director, who collected and posted the surveys to the researcher, marked on each form whether a director or executive filled out the survey.

Upon reviewing the raw data, it was noted that one director did not submit a survey, so there were only six director responses. It was noted that one executive marked all responses low (most zero and the rest 1 or 2 with one 3) and the other

executive marked all responses high (mostly fives with two fours). For this reason, both were eliminated, and only the directors' responses are analysed below.

Survey results are as in Table 5.9.

The post-trialling survey data was also analysed using Excel Descriptive Statistics analysis tool, a report of univariate statistics for the raw data, providing information about the central tendency and variability of this data.

The greatest difference of views among directors appeared to be perceptions of the degree to which the board, during the trial, satisfied one of the tasks of the functional decision-making procedures: 'evaluate negative outcomes of each alternative and satisfaction of the objectives' ($M = 3.17$, $SD 1.83$, with a minimum ranking of 0 and a maximum of 5).

There was slightly greater agreement that the 'designation of Reminders assisted the board to ensure all functional tasks were satisfied to a high standard' ($M = 2.67$, $SD 1.14$) than there was for rating whether the 'functional decision-making procedures improved overall quality of discussion?' ($M = 2.33$, $SD 1.37$), and that the board 'would receive the benefits of FDM if board adopted functional decision-making procedures for important decisions' ($M = 2.33$, $SD 0.81$).

In both the post-training and post-trial surveys, both EMT members and directors were in close agreement that the board already identified and assessed the problem (post-training $M = 4.0$, $SD 0.5$; post-trial $M = 3.33$, $SD 0.82$).

Table 5.9: Post-Trial Survey of Directors (n = 6)

To what extent did you:	Min	Max	Median	Mode	Mean	SD
Identify & assess the problem?	2	4	3.5	4	3.33	0.82
Generate alternative proposals/ Options/Solutions?	2	4	3	3	3.00	0.89
Agree criteria for a good solution?	2	4	4	4	3.5	0.84
Evaluate positive outcomes of each alternative and satisfaction of objectives?	2	4	3.5	4	3.17	0.98
Evaluate negative outcomes of each alternative and satisfaction of objectives?	0	5	4	4	3.17	1.83
Think functional decision- making procedures improved overall quality of discussion?	0	4	2.5	2,3	2.33	1.37
Think designation of Reminders assisted board to ensure all functional tasks were satisfied to a high standard?	1	4	2	2	2.67	1.14
Think you might employ the role of the Reminder in future board discussions?	2	3	2.5	no mode	2.5	0.55
Believe your board would receive the benefits of FDM if board adopted functional decision-making procedures for important decisions?	1	3	2.5	3	2.33	0.81

Directors were most in agreement regarding their low probable use of the role of the Reminder in future board discussions; with all rating this either 2 or 3, the mode equalled 2, and the median 2.5.

Directors' views as to the improvement in decision quality made by the trial use of functional decision-making procedures resulted in the same mean ($M = 2.33$) as the ratings for the extent to which the board would receive the benefits of functional decision-making if the procedures were adopted. However, the range of individual responses for rating the extent to which the use of the procedures improved the overall quality of discussion was from 0 to 4, indicating much less agreement among directors. Some directors view the opportunity to improve as much greater (those who rated a 3 or 4 for potential to improve the quality of decision-making) while others (who rated this 0 or 1) perceive the "board currently

uses very similar processes and while not always formal, the components are usually present" and "no better than previous processes if looking in terms of quality of process".

Previous sections presented the results from the interviews, the direct observation and three surveys. The next and final section of this chapter presents the results from the psychometric testing of the board on emotional intelligence, reported as being significant for successful decision making by the case study board.

5.7 Emotional Intelligence (EI) Test Results

You can virtually almost say what you want to say but you've got to know how to say that particular thing. [director]

You've got to know who it's going to impact and who it's going to hurt, who it's going to demotivate, who it's going to motivate. [director]

During the initial interviews, several directors and the CEO used the term "emotional intelligence" to describe an attribute that was very strong in the board, in the CEO and for at least three of the executives. Almost all directors, the executives, and the CEO interviewed made references to the board's exemplary interpersonal behaviours, especially board sensitivity to individuals' feelings and emotions.

I guess I have to say that [the company] CEO is the most amazing CEO I have ever come across.... I was hugely impressed with his level of emotional intelligence. [The CEO] is somebody for whom emotional intelligence is really, really important. [director]

I'd have to say it's people like [Executive3] would be a real standout and [Executive4, Executive2]. I mean, those three really, really standout as being people with very, very strong emotional intelligence. [director]

I think the 'chemistry' I guess is about that emotional intelligence and the interplay of emotional intelligence but it's also about the issue of moral development. [director]

There is quite a sensitivity of that around the board table ...so I think there is that ability to communicate either via body language or a willingness to let individuals have their say. [director]

Yes, people can get emotional. I believe we harness that emotion very constructively. I believe we understand how to do that. [director]

To determine whether the board's successful decision-making might be partly a result of the board members' combined EI, directors and the CEO took the Mayer-Salovey-Caruso Emotional Intelligence Test (MSCEIT).

All MSCEIT scores are reported as normal standard scores with a mean (M) = 100 and a standard deviation (SD) = 15. In general, scores one standard deviation above the mean and higher are interpreted as high emotional intelligence; scores within one standard deviation either side of the mean are viewed as moderate or average EI; and scores below one standard deviation from the mean indicate EI needs development.

Table 5.10: MSCEIT Results for the Board

	Branch 1	Branch 2	Branch 3	Branch 4	Total EI
	Perceive	Facilitate	Understand	Manage	
Board <i>M</i>	85.70	99.31	88.47	87.46	84.39
Highest member score	99.3	127.9	98.6	100.3	

When board members and the CEO talked about EI, they used examples that illustrated some of the same abilities the MSCEIT measured. One of the branches (Branch 1) of emotional intelligence involves listening and noticing expressions (*“when somebody’s getting a bit anxious... you can see their face twisting ... you can see [the] way their hands are and hands on their head and crossed the arms and all that sort of body stuff”*) and voice tone and body language (*“Body language certainly plays a big part in this board”*). This serves a number of purposes: listening for accurate understanding of the message to obtain and retain information, evaluating the credibility of the information, understanding the feelings and point of view of the source of information (*“They’re actually disinterested because they’ve just switched off because they don’t actually agree with what you’re talking about”*). It is a skill or ability that may not be “easy to be both open-minded and sensitive to credibility at the same time. However, this is exactly your responsibility as a member of a group” (Patton et al., 2003, p. 20). Directors reported awareness and appreciation for the benefits of this ability to the board’s process; their collective tested ability was average.

The CEO’s and board’s high regard for each director’s *comfort* throughout the decision-making process may be indicative of their understanding as to how emotions influence thinking (Branch 2) and the consequential need to perceive (Branch 1), understand (Branch 3), manage and use (Branch 4) one’s own and

others' emotions to achieve emotional *comfort*. 'Comfort' was a sort of standard the board and CEO used for evaluating board process.

There were many reports of directors and the CEO using their perception of emotions (Branch 1) to guide their behaviours (Branch 4):

People think before they speak and I think that's quite critical, actually, to an ability to maintain good relationships, but at the same time good decisions. [director]

...I've been really conscious of sort of watching what's going on with them. It's just sort of looking to see whether they are feeling comfortable. [director]

One of my other jobs in terms of designing the culture, is to be 100% of observant of, in the board meetings, in conversations with the board, in correspondence with the board collectively and individually, and one of my jobs is to sense either by the type of question asked, the way the question was asked, the way a series of questions are asked I need to sense if something is not right. [CEO]

.... We can actually read members' [emotions]. [director]

These examples illustrate directors' and the CEO's awareness that emotions communicate useful information.

One director spoke of "putting yourself in the other person's shoes" and similar empathic principles. One study presents evidence that emotional intelligence is a predictor of ethical decision-making, with education being the only significant contributing factor (Scott, 2005). Empathy ratings have been shown to correlate with team performance (Rapisarda, 2002).

The “sense of absolute fairness and... graciousness” [director] in combination and in reference to third parties’ feelings also indicates an awareness of the need to not do harm to people/relationships that characterizes an emotionally intelligent approach (Cherniss, 2005; Fisher et al., 1989).

The CEO explained the difference IQ and EI skills can make:

You can be naturally intelligent, you can employ the most naturally intelligent person, but the question is: How will you utilize that capability to deliver a result? To me, EI is not just about capability of understanding all those issues, but how does that person apply it to deliver an outcome. That's where this part of information to me is the broadest possible context, not just the reports I give to the board, but it's how the board have a collective memory about all sorts of things which is then part of an input to develop a decision, which comes with an application of EI.

I'd say we have, we have people... who are in the 99% percentile for numerical and verbal reasoning but can't get a single point across to six people they can sit in a room with- can't use that natural intelligence they have to relate to everyday objects, or everyday thinking that people have to articulate and get a point across about where are we going and how shall we best get there and how do I get your support to get there, as distinct from I can work all the numbers out, all the sums out and I can tell you what the problem is. I can tell you what the answer is. I can tell you how to get there. That's ah, unless they have some capacity for the EI to absorb what I call information. Information ...is still the body language, The tone, the words that people are saying to you, that to me is all information which goes into the, into the brain to then regurgitate with your other harder quantifiable stuff from which to make a decision about how you apply it in an EI sense. That's my interpretation of EI. Information for me is not just numbers and reports, it's observing you in action; it's remembering things that you have said and done, exposed during my interaction with you over a period of

time, about everything from, about how you feel, about gender issues or [ethnic minority] issues or whatever it might be, I build a profile, and to me that's how your people apply the EI with the information.

The chair scored low in branches 1 (perceiving) and 3 (understanding) and scored average in branches 2 (facilitate) and 4 (manage) The research has been mixed as to the effect the team leader's EI has on the team. One study indicates that team leader EI has a neutral to negative relationship with team performance from the team members' perspectives (Feyerherm & Rice, 2002) while others indicate team leader EI is "significantly related to the presence of emotionally competent group norms [which]...are related to team performance" (Stubbs, 2005) and that effective leadership involves "consideration" and the ability to establish "mutual trust, respect, and a certain warmth and rapport" with group members (Cherniss, 2000, p. 3).

For this board, reports from other directors pointed to the chair contributing in the two EI ability areas he tested most highly in - understanding how and which emotions influence thinking (branch 2) and managing one's own and others' emotions (branch 4). *"He certainly knows what buttons to push. He knows when it's time to listen to what [director] has to say even though it maybe it's important for [director] to say that rather than it's important for the discussion" [director].* Perhaps knowing what effect emotions have on one's own and other board members' thinking helped the chair direct his board interventions, as he was aware of how he wanted the others to feel, to best facilitate their thinking at that time. The chair's competent score in managing emotions enabled him to respond rather than react, to recognise what he was able and willing to do, to further the decision-making task, in regard to his own and other board members' emotions. *"...He'll do it in a way not put you down or make you feel silly. He'll do it in a way that says, 'Well what exactly are you looking for? Can you tell me what it is that you're uncertain about? I'm not too sure I have actually picked up what it is you want to know. Can you help me here?' So, he'll do it in that sort of way which is a*

very smart way to do it" [director]. The chair's low score on Branch 1 (perception) may be unimportant as other directors reported watching for signs of discomfort or confusion in others and pointing these out, through the chair, if he missed them.

The range of branch scores and the mean of board total EI scores created an unexpected complexity for reconciling the interview assertions about individuals' EI. Two participants viewed their own EI as being high. Self-report of IQ compared to actual test results, in general, "correlate at the $r = .30$ level or below with actual, ability-based performance measures of intelligence (Paulhus, Lysy, & Yik, 1998). One's perceived intelligence is considerably different from one's actual intelligence. The MSCEIT and MEIS, therefore, are likely to be only weakly associated with self perceived EI" (Mayer, Salovey, & Caruso, 2004, p. 203). This generalization was borne out and points out the problems with relying on the subjective self-perceptions of directors and the CEO.

The average of the total EI score for the board of directors was just over one standard deviation below the mean, where "scores below 85 indicate that emotional intelligence needs development" (MHS, 2000). Score results may have several alternative explanations.

Some groups perform better than others because the characteristics of the group create a state of 'internal harmony', which results in maximization of productivity (Williams & Sternberg, 1988). In the case study company board, the board's performance may be enhanced because the directors' attributes worked well together. Boards who have developed this state of internal harmony may be able to utilize more fully the skills of their members, both EI and other cognitive intelligences (Williams et al., 1988). It is possible that this board has succeeded in creating the state of internal harmony and consequently gains the maximum EI skill utilisation from its members.

Another explanation involves studies of the influence of EI on group/team performance which have had mixed results: some finding group EI positively linked with team performance (Jordan, 2002 & 2005) and another finding no correlation with either group emotional competence or team effectiveness (Amundson, 2005). This explanation may be supported by research that indicates tested EI skills may not be required for success in upper management, the career path of most of the case study directors. In one study, involving 59 senior executives from a large international production and service organization, EI was found to decrease ascending the corporate hierarchy (Collins, 2001 as cited in Mayer et al., 2004). Low to low average scores by some of the directors may be indicative of their selecting careers in upper management where EI skills may not be required to achieve success. In this case, tested EI may not be correlated to board performance or effectiveness.

A fourth explanation for correlating the scores to reported behaviours uses a group intelligence explanation. Williams and Sternberg (1988) conceived a group intelligence where “group members may be involved in the collaboration differentially with regard to their abilities and desires, yielding a system with characteristics and capacities unlike those one group member could display alone” (Williams & Sternberg, 1988, p. 356). Board EI may be conceived in a similar manner. To paraphrase Williams and Sternberg (1988), board EI is the functional EI of a board of directors working as a unit.

In a study to investigate how the cognitive and social-cognitive attributes of group members affect group functioning, Williams and Sternberg (1988) conceptualised four approaches to relate individual characteristics to group characteristics. Viewing the group as a unit of analysis, the group would have a highest, lowest and average amount of a characteristic, as well as a range (lowest measure through highest measure) and distribution. Applying this approach to the case study company board, in each of the EI branch scores, for example, there is the lowest individual score, the highest individual score (these also are the range for

the group branch score), the group's average or mean score for that branch, and the distribution of individual scores, which are the group's distribution for that branch. Williams and Sternberg (1988) found it was the highest scores in the group, rather than the average scores, which predict group effectiveness. Applying this model to the EI scores would result in a prediction of high average or skilled/expert EI behaviour in each of the four branches, as high scores were 99.3, 127.9, 98.6 and 100.3 in branches 1 through 4 respectively.

Lastly, a study found that average team EI predicted team performance, but only initially (high EI teams operated at high levels of performance throughout the study; low EI teams initially performed at a lower level than the high emotional intelligence teams). Over time, the teams with low average EI raised their performance to match that of teams with high EI (Jordan, 2002) This may be another explanation for this board's performance. This board, with the majority of directors serving together for over 11 years, may have raised its group EI performance over this extended time.

How much EI is needed for positive board dynamics? For this board, having at least five of the seven directors scored at least competent (low average) or higher in three of the four branches of EI, appears to be sufficient. All seven directors scored competent in branch three. In branch 2, four scored high average. Five directors scored competent in all branches. Two directors scored high (expert) in branch 2 (facilitation). While the total scores of all directors average out to just below one standard deviation (84.39), the application of individual branch skills by those with strength in each and the performance development over time found in groups starting with lower averages (Jordan, 2002) may have provided sufficient EI to keep the board in "a state of harmony". With the results reported, it is appropriate to review the criteria used to assess the validity of the approaches used in this study.

5.8 Validity

In the Methods Chapter, the criteria of credibility, transferability, dependability and confirmability were described and selected as most appropriate for this type of exploratory research. These criteria were useful in guiding the researcher and are examined now in respect of the research methods used.

Credibility is established when the participants judge the results to be congruent with their perceptions. All directors were sent (via email) the first draft of the case study findings. The emotional intelligence results were deleted from the findings to protect individual privacy. Three of the seven directors responded, all affirming that the findings “capture the decision-making style of the board”. The lack of response by the other four directors’ and the CEO may be due to difficulty in reading through the findings (one director who responded offered “Frankly, I find it a ‘hard read’, particularly the taped transcripts with the “ums” and “ahs” etc.; however, having said that, I think it has captured the general flavour of director thinking “), lack of time due to other commitments (the findings excerpt was 83 pages of over 12,000 words), or disinterest, as shortly after this research concluded, external forces required a change in board membership. All but one of those who did not respond are no longer on the case study company board.

Transferability occurs where the researcher has described the context and assumptions of the research in sufficient detail such that they could be transferred or generalized with integrity to another context. Taking into account the context within which the board operates, and the assumptions about the board capabilities required to avoid the three constraints while satisfying the functional decision-making task requirements, this same research could be utilised in other contexts. The case study findings of the same thematic categories that Hirokawa et al.’s (2000) research reported can be theoretically extended beyond this specific case to other boards of directors. The specific behaviours identified for successful decision-making within each of the six thematic categories may have potential

relevance in other board contexts and would need to be examined for their specific relevance.

Dependability requires the researcher to describe all changes during the study and how the researcher modified her approach to accommodate these changes. The interview data, enthusiasm of the case study board, and the instability of the energy industry led the researcher to change from a three-company study to one in-depth company study. The frequent mention of emotional intelligence in interviews inspired the researcher to include a psychometric EI test. The directors' and CEO's encouragement to include all executives who regularly attended board meetings in their role as Acting CEO led to their inclusion in the study.

Confirmability is the degree to which others could confirm or corroborate the same results. Comprehensive documentation of the research procedures used satisfies these criteria in the hope that others will repeat the research with many other boards in many other contexts.

5.9 Chapter Summary

This chapter described the data collection and how the data were treated in the process of condensing them for presentation. Data were collected using interviews, surveys, direct observation and a psychometric test of emotional intelligence. The results analysis was summarised in tables and supplemented with extensive excerpts of the raw interview data to 'flavour' and support interpretation.

Interview data were categorised within Hirokawa's six thematic categories to aid in understanding the different thematic factors, whether one category was viewed as more significant than others, and for ease of comparison of factors between stories of successful and unsuccessful decision-making. The summary of factors

for both successful and unsuccessful decision-making described by directors and the EMT in interviews are presented in Table 5.11 below. Key findings from the interview results are discussed in the next chapter.

Table 5.11: Comparison of Factors Contributing to Failed and Successful Decision-Making Stories

Failed Decisions	Successful Decisions
Board structure	Board structure
Inadequate preparation; inadequate resources possibly due to lack of contingency planning; ignoring agreed criteria	Decision-making procedures (goal clarity, agree criteria, generate options, evaluate positive and negative consequences of each option) Acting in the best interest of the company (goal intent) Role clarity Use of advisors Post decision learning
Board process	Board process
Dissatisfaction with decision, the process and the board	Vigilance (through use of advisors and multiple models)
Directive leadership	Leadership
Majority rules	Consensus
Offstage manoeuvring	
Communication	Communication
Biased information	Information sufficient to achieve comfort and confidence (emotions)
Relationships & Emotions	Relationships & Emotions
Pandering to the grandstanding director	A Safe environment (board culture) trust; confidence and comfort; sharing the contrary view; support for the doubtful director; acting in the best interest of the company; assertiveness; homogeneity; socialising
Director attributes	Director attributes
Self interest	Ethics
Ego	Emotional intelligence
Incompetence	Commitment

In the direct observation of board decision-making, the discussion did not lead to resolution beyond the request for more information. Whether this was due to the historical deadlock of this particular issue, the effect on the board of being

observed, the non-satisfaction of the functional decision-making tasks, or a combination of these influences cannot be determined.

Director surveys ranked task-relevant factors (structure, process and communication) overall as contributing more to successful board decisions than relational factors (relationships, emotions, and director attributes). EMT members also ranked the task-related factors as contributing more to board decision-making success than the relational factors. Overall, relational factors were ranked as contributing more to the decision-making failures by both directors and the EMT.

After training in functional decision-making procedures and the use of the Reminder role and prompts, post-training surveys indicated directors and executives felt strongly that the board already satisfied the functional tasks and that the likelihood of using a Reminder was not strongly indicated.

In the post trial survey, results were much the same as in the post-training survey where directors indicated that the board already satisfied the functional tasks and that the likelihood of using a Reminder and the Reminder prompts was not strongly indicated.

Emotional intelligence psychometric test results indicated satisfactory levels of intelligence in each of the four branches to enable board competence in perceiving, understanding, using and managing emotions. The key findings and conclusions are discussed in the next chapter.

CHAPTER 6: DISCUSSION AND CONCLUSIONS

At all levels of the system what people *think* they're doing, what they *say* they are doing, what they *appear* to others to be doing, and what in fact they *are* doing, may be sources of considerable discrepancy.... Any research which threatens to reveal those discrepancies threatens to create dissonance, both personal and political [emphasis in original]. (MacDonald & Walker, 1997, p. 186, as cited in Merriam, 1998, p. 43)

6.1 Chapter Introduction

The aim of this study was to explore the internal factors under the control of the board (or those selecting board members) that may contribute to effective board decision-making process, with the view that effective board process could lead to effective board outputs (decisions) and effective decisions may result in more effective organisational outcomes. Specifically, the study investigated:

- Which factors directors *thought* contributed to their board's successful and unsuccessful decision-making;
- How the board *actually* made decisions; and
- Whether training and usage of a normative decision-making methodology, which included the use of a *reminder* role, might improve the board's decision-making process.

Chapter 2 examined and reviewed the research on governance relevant to understanding the context of decision-making by boards of directors. The three most investigated factors of board size, director independence, and leadership duality have generally failed to find convincing connections between these

variables and organisational performance. Agency theory, which underpins the majority of research on corporate governance, offered little insight for understanding board decision-making process. Agency theory may be limited in the contributions it can make to the study of board process because of its underlying assumptions and its focus on the potential conflict of interests between the owners (shareholders) and their agents (management, and in some literature, the board and management).

The literature pointed to a need for mutual trust between the board members, and between the board and management as a means of enhancing performance of the board and the organisation. Westphal (1999), Roberts (1999) and others have argued that mutual trust was a key factor in constructive relationships and problem-solving effectiveness.

Lastly, theories and models based on actual board behaviour or behavioural perspectives of boards may have greater potential for explaining what factors mediate the board decision-making process. The lack of empirical studies of actual board process represented a serious gap in the knowledge required for identifying and understanding how boards make decisions, the factors that contribute to effective board decision-making, and perhaps most importantly, what can be done to improve board decision-making.

Chapter 3 introduced the perspective of small group decision-making research as it could be applied to boards of directors. This research showed that using normative decision-making procedures resulted in better decision-making processes and consequently potentially better decision-making outputs. In functional theory, as articulated by Hirokawa (1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1994, 1996, 1997, 2000, 2001, 2004, 2005), factors that mediate decision quality output were categorised as either *input* or *process* variables. Six categories of input and process variables were found to be potentially relevant for exploring in board decision-making:

structure, process, communication, relationships, member attributes and emotions (Hirokawa, 2000). Specific input and process factors potentially relevant to board decision-making included decision-making procedures, clarity of goals and roles, planning, operating procedures, vigilance, task type and structure, evaluation demands, information requirements, time pressures, meeting rules, decision rules, group cohesion, groupthink, trust, homogeneity, group norms, post-decision evaluation and learning, group member attributes and the three constraints: affiliative, egocentric and cognitive.

Janis (1971, 1972, 1977, 1982, 1989) and others (Flowers, 1977; Gouran, 1991; Herek, 1987; Kameda, 1993; Leana, 1985; Neck et al., 1994; Park, 2000; Peterson, 1998; Schafer, 1996) offered insights into the destructive group process of groupthink and its antecedents as well as strategies to avoid groupthink, such as non-directive leadership and vigilance.

Two initiatives, the use of a *reminder* and training in functional decision-making procedures (Schultz et al., 1995), were advanced as means to overcome the group's natural tendency to overlook or skip some of the normative decision-making tasks. The research design to explore board decision-making process included direct observation of an in situ board, interviews with all board directors, the CEO and four (out of five) executive team members, three surveys and a psychometric test. Data collection and analysis was detailed in Chapter 4. The results of the investigation were reported in the last chapter. In this final chapter, the key findings, conclusions and contributions of the study are discussed along with the limitations and recommendations for future research.

6.2 Key Findings

The small group research decision-making model of *inputs + process = outputs*, aided in understanding the various types of variables that may impact on the board of directors' decision-making process. The variables were found to be more interdependent and inseparable than the categorisation implied. Although it was helpful to understand the distinction made in the communication literature between input and process factors, re-categorising the factors into the inter-related dimensions of *relationship* and *task* (Fisher, 1980) provided greater explication of their roles and relationships. Several original pictorial models were drafted to try to capture and illustrate the relationships between the factors. The model needed to capture the complementary interdependence of the pairs of task and relationship factors such as control and collaboration, vigilance and cohesion, board's knowledge and confidence and resulting openness and trust of executives; the board's role being both challenging and supportive, independent and involved, engaged and non-executive, etc. Ultimately the seemingly paradoxical yet complementary nature of these factors were best illustrated by the *yin and yang* symbol.

The concept of *yin and yang* describes complementaries that are often viewed as opposites or conflicts: dark and light, night and day, masculine and feminine, etc. In the yin and yang, each complementary is equally important, interdependent, and each contains the seed of its complement. Yin and yang are opposing forces usually in movement seeking harmonious balance rather than absolute stasis.

Directors expressed seemingly equal importance to both task and relationship factors, describing them as both necessary and neither sufficient alone. The principles of yin and yang seem analogous to the way the directors, the CEO and the executive management team viewed the factors that contributed to successful board decision-making.

Within the *task* dimension, factors viewed as contributing to the board's successful decision-making included their decision-making procedures (the methodology used for all major projects and acquisitions which required goal clarification, generation of options, explicit criteria, and evaluation of positive and negative consequences of each option), role clarity, vigilance through extensive use of advisors and multiple models, consensual decision-making, non-directive leadership, appropriate quantity and quality of information, and post decision audit and learning. Permeating this dimension was the primary task intent to act in the best interest of the company.

The *relationship* dimension was imbued with the primary intent of trust. Factors in this dimension included a board culture characterised by a psychologically "safe environment", preservation of board "chemistry" and homogeneity of board members through careful director selection, limited but regular socialising between the board and EMT, board norms of sharing the contrary view, supporting the doubtful director, constructive challenging to achieve confidence and comfort before agreeing to an option, commitment (diligently fulfilling board expectations), and sufficient board member attributes of IQ, EI, and business knowledge. The small group decision-making literature pointed to the simultaneous need for compatibility in group members (Shaw, 1981) and dissimilarity in personalities (Hoffman, 1959; Hoffman & Maier, 1961) for greater effectiveness and group satisfaction.

Just as yin and yang are interdependent, that is, one cannot exist without the other, so too the task and relationship factors were described by board members and in the literature (Westphal, 1999; Forbes & Milliken, 1999) as though they exerted mutual and reciprocal influences, both inter-dimensional between them, and intra-dimensional between the factors within each dimension. Vigilance (task) could not take place to the extent necessary without trust (relationship); trust (relationship) enabled constructive challenging (task), and so on.

What may appear to be conflicts, for example, the simultaneous need for the board to support and scrutinise the CEO, appear that way when it is assumed that the support is constructive, given and received openly and enthusiastically, and the scrutiny is destructive, received defensively and reluctantly. Instead, where the primary intents of trust and acting in the best interest of the company encourage reciprocal behaviour, a self-reinforcing safe environment developed that encouraged constructive challenging. In the right perspective, the simultaneous need for CEO support and scrutiny and many other "conflicts" can instead be viewed as complementaries, like the concept of yin and yang.

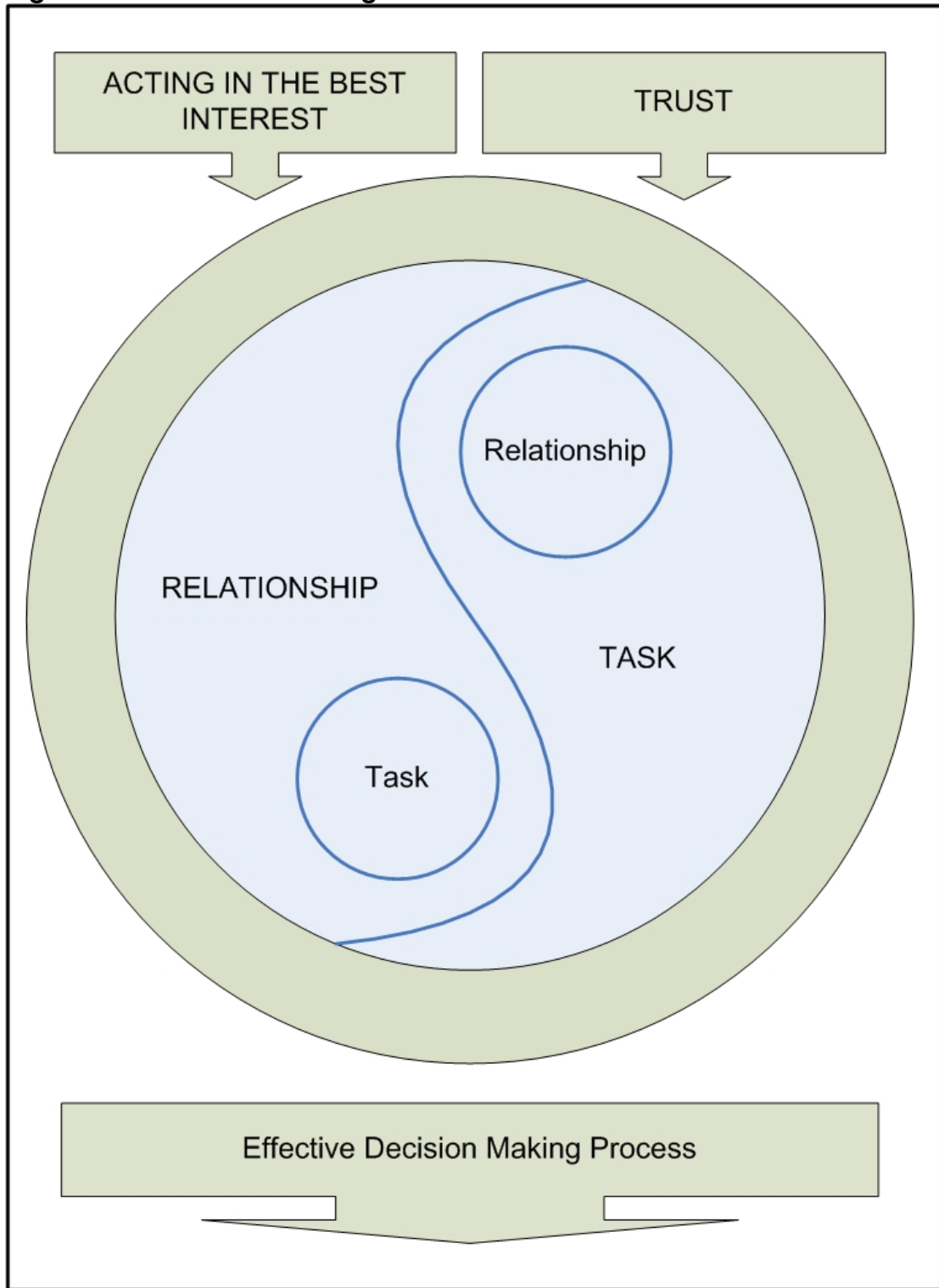
The purpose of the board of directors may be viewed in the yin and yang relationship: the board acts collectively (relationship) and makes decisions in the best interest of the company (task). The task is the purpose for the relationship. Without the board, there would be no governing body to carry out this company task. Likewise, without the task requirement of decision making (in the best interest of the company), there would be no need for the board.

Each portion of yin and yang contains the "seed" of its complement. Successful achievement of the task dimension requires satisfaction of the relationship dimension. Constructive relationships within the board are reinforced by the robust task decision-making process, which made the case study directors feel at the end of the implementation of a major acquisition, "*Hey wasn't that a fantastic exercise we went through*" [director].

At the highest level, the board's explicitly stated intent of "acting in the best interest of the company" combined with the expressed high trust attitude (another intent) may have acted as significant and necessary behavioural guides that enabled the board to work through support and scrutiny, task and relationship factors with seeming ease, building relationships between themselves, the CEO and the executives. This might inform director training which doesn't start from this

approach but from the legal-economic viewpoint. The board explored, listened and challenged the EMT while exemplifying care for the company and its people. Their behaviour invited reciprocity from the EMT, building and nourishing organisational trust at the highest level. The CEO and executives openly acknowledged the high level of scrutiny the board gave their presentations *and* the board's trust, which they said they felt even when the board found weaknesses or flaws in their presentations. Explicitly and repeatedly asking whether contemplated task-focused actions were "acting in the best interest of the company" while simultaneously expressing trust and care for the people involved were not viewed as conflicts or paradoxical behaviour but rather complementaries. Emphasis on the task and relationship factors was equal: all were viewed as necessary, none were more important, none sufficient alone. The findings are represented in the model presented in Figure 6.1 below.

Figure 6.1: The Yin and Yang Model of Board Process



The case study company board used established, documented decision-making procedures for all major decisions. The board's prescriptive decision-making procedures were reported by directors and the EMT to satisfy the four steps or tasks functionalists say lead to more effective group decision-making (Gouran & Hirokawa, 1983; Hirokawa, 1983; Poole, 1986; Stohl & Holmes, 1993). Detailed descriptions and examples elicited in interviews confirmed that their major-decision-making methodology comprised the same steps or tasks as Hirokawa's (1983) functional methodology. This may partially account for the high performance of the company with regard to its major projects and acquisitions.

The decision-making procedures used for the major projects and acquisitions seemed to have flow-over benefits into other elements of the board's decision-making. Open discussions about goals and roles in one circumstance may have set the stage for encouraging and accepting other open discussions in other circumstances. For example, the clarification of roles (task) and the trust (relationship) between the board and CEO may have combined to enable either party to "cross the line" between governance and management, seeking and benefiting from the sharing of viewpoints.

The task structuring activities may also have built the mutual trust between the board, the CEO and executives as all gain the same, clear understanding of the board's goals, each party's' role and responsibilities, the board's decision procedures and information requirements.

The board's major-decision procedures guided them through a process that satisfied the functional task requirements (identifying and assessing the problem, generating options, agreeing criteria, evaluating positive and negative consequences of each option) *and* embedded strategies (vigilance through use of external advisors, multiple models, etc.) for avoiding dysfunctional decision-making. Janis (1972, 1982) cautioned that a highly cohesive group without conflict would be less likely to critically evaluate the information and options. While the

case study board's level of cohesiveness was not determined, the practice of using external advisors as critical evaluators and devil's advocates was a strategy to avoid this potential antecedent to groupthink. The board formally assigned devil's advocate roles to a separate group of independent advisors whose job was to critique the success-fee-remunerated advisors' recommendations. This initiative may have aided the board and EMT to develop acceptance of challenges from each other as a constructive means of gaining confidence in their process. The extensive use of multiple advisors and multiple decision models enshrined vigilance into their decision-making procedures (task) and probably contributed to the board's confidence and satisfaction (relationship) in its decision-making processes.

During the observed meeting, the board used natural discussion, as it was facing a non-major decision: the potential conflict for the company auditors who also supply consulting services. At the start of the discussion, the board failed to gain agreement as to the problem or goal: It was framed as a "perception" problem by some and a potential ethical conflict by others. The board did not agree any criteria that a good solution to the problem would need to meet. It failed to generate options beyond the two obvious ones of retaining the status quo or limiting the company auditors to the auditing role or consulting services role. The discussion briefly touched upon the same two positive and negative consequences of each option (retaining the status quo would mean retaining good auditors but did not solve the problem of perception of conflict and poor governance practice; limiting the services provided by the company auditors would address the perception problem but would mean loss of good service providers in one area or the other). No other criteria or consequences were discussed. The board failed to resolve the issue or make progress; it requested another report from the EMT, the value of which was viewed with scepticism by the CEO. Whether the failure to agree a solution was due to a faulty process or the atypical history of this debate could not be concluded with certainty. When questioned in follow-up interviews about the reason the board had not succeeded in resolving this issue, only one

director was aware of the need to agree to some decision criteria, but he self-censored his thoughts, depriving the board of valuable input which may have made a difference to their ability to reach a resolution. Self-censorship is an antecedent of groupthink (Callaway & Esser, 1984). Further observations and follow-up interviews could have potentially provided insight into this aspect of board process. In the follow-up interviews, none of the other directors or the CEO made any mention of the functional tasks or steps to explain why the board was unable to make progress. It may be that the tasks or functions in the formal methodology are not internalised in directors' understanding of how to get a group "meeting of the minds"; rather, the tasks are something imposed that they proceed through mechanically without awareness of the purpose and contribution to getting agreement of each task or function. This would indicate an area for further research and potentially some means of raising directors' appreciation for the necessity and benefits of fulfilling the four tasks or functions in a group decision-making situation.

Subsequent to the observed board meeting, the board and EMT received training in functional decision-making procedures. This included an explanation of the purpose and contribution of each step/task toward reaching a "meeting of the minds". Directors and executives indicated that while the training in functional decision-making and use of a *reminder* was valuable to the board, they were only slightly likely to use the functional decision-making procedures or *reminder role*; their major decision methodology addressed the requirements of the functional theory, and they felt that what they were already using was equivalent.

The *reminder role* involved silently checking that each of the decision-making procedures or tasks was satisfied and if not, asking the board questions to draw their attention to the need to satisfactorily complete each task. The board's procedures did seem to make the *reminder role* unnecessary for major decisions. However, the use and practice of the *reminder role* might raise director and EMT awareness of the contribution and function each task makes toward more effective

decision-making by a group. Increased awareness could lead to improvement in natural discussions when directors either silently or overtly check the board's satisfaction of each of the necessary functional decision-making tasks. Regular use of the *reminder* could have the potential to improve their board process for non-major decision discussions and consequently the resulting decision-making.

The board's behaviours supported the literature's contention that following structured decision-making procedures improved group performance, and natural discussion was less effective than structured discussion procedures. It also confirmed previous findings that only when the structured procedures were imposed would the group (in this instance, the board) follow and fulfil the tasks that lead to more effective decision-making.

Directors felt confident about the quality of their decision-making due in part to their confidence in the information they had. The effort made by the CEO and executives to provide the board with appropriate, comprehensive information and analyses was another source of trust. While information is a variable in the task dimension, the confidence and trust (relationship factors) engendered by the CEO's supply of quality information was undoubtedly a factor contributing toward the positive dynamics between the board and CEO, the board and EMT, and even between the board members themselves.

The board received a large amount of information but not an oversupply according to the directors. The board's information was both demand and supply driven. Directors said they "worked very hard" to get the information they wanted to meet their needs. Acknowledgement should be given to the CEO who made exemplary efforts to understand and supply relevant information to each director individually, avoiding information overload. All directors emphasized the benefit of the quantity and quality of the information they received and its role in enabling them to make timely, successful decisions. The CEO was able to assist the board in its decision-making, not through stealth or supplying biased information, but through open,

extensive sharing of business and industry knowledge. That open sharing enabled the board to make more informed choices than they would otherwise be able to given the limitations on their resources in their roles as non-executive directors.

One possible weakness in the board's decision-making procedures was the lack of contingency planning, identified from the decision failure stories related in the interviews. Even with the post decision audit, none of the directors nor the CEO acknowledged that they could have acted to mitigate or avoid the problem of insufficient company resources when more than one acquisition at a time was contemplated. In effect, the board and CEO placed the blame on external factors, outside the control of the board. When pressed, none expressed any awareness that they could build in a contingency plan to address this problem should it arise again in the future. They said that should the same situation arise, they would make the same decisions given the same information. This behaviour may be indicative of several of the symptoms of faulty board process. First, due in large part to past success, the group (or board in this instance) may come to feel that it is immune to failure: Any decision the group reaches will be successful; procedures or back-up systems will protect the group from any negative outcomes (Janis, 1971, 1972, 1977, 1982). Second, the CEO may attribute any failures to external factors, encouraging the board to do likewise, thereby increasing cohesiveness and reducing effective critiquing of poor performance (Sundaramurthy & Lewis, 2003). Learning can only take place if the board recognises that their own actions may be a source of the problem, and challenge their existing strategies, structures and procedures.

The board culture or norms had several key elements, which directors thought contributed to the successful performance of the board: (a) trust, (b) sensitivity to and concern for people and challenging in a constructive manner (described by participants as emotional intelligence), (c) the homogeneity and socialising, (d) directors' time together on the board, and (e) norms of decision-making by

consensus, high individual effort, support for the doubtful director and sharing the contrary view.

Trust, the primary intent of the relationship dimension, has been discussed as an over-arching influence, permeating the relationships. When executives perceive the "relevance and value of non-executive [directors'] contributions", it leads executives toward "greater openness and trust, which in turn builds non-executive knowledge and confidence" (Roberts, McNulty, & Stiles, 2005, p. S12). Trusting behaviour "invites similar responses from others" (Barnes, p. 111); it is a reinforcing cycle. Trust between the directors and the CEO led to their comfort to occasionally "cross the line" between governance and management. Trust led to openness; openness led to greater sharing of information and opinions; more information led to more knowledge and confidence, and so on. Trust seemed to be related to supporting every relationship factor as well as enabling and enhancing satisfaction of the task factors. The task intent of "acting in the best interest of the company" may also have played a similar role in its ability to leverage directors above self-interest, providing a task-focused purpose that shaped relationships and guided behaviours, eliminating some conflicts and reinforcing similar responses of acting in the highest intent for all concerned. The sensitivity to and concern for people were described by participants as evidence of high "emotional intelligence". Examples of this included board members' perception and correct interpretation of others' body language to draw out unspoken thoughts or concerns; board members knowing how to constructively phrase statements and questions in order to constructively challenge each other and the EMT. While the overall total EI score of the board was on the lower edge of average, the majority of individual scores (5 out of 7) on each of the four EI branches were average ("competent") or better ("expert"). This is an important observation. Williams and Sternberg (1988) found it was the highest IQ scores in the group, rather than the average scores, which predict group effectiveness. If EI works like IQ in the group, then for this board, having some directors with high average or better EI scores in each branch may have aided development and

maintenance of its safe environment norms and attainment of the reported internal harmony, characteristic of productive groups. Perhaps like group IQ, group EI must be just sufficient to ensure that no "member [is] too out of touch with what constitutes socially appropriate behavioral norms" (Williams & Sternberg, 1988, p. 375). Another explanation might be that EI was not a significant factor but rather, as in Zand (1972) and Boss's (1978) studies, trust was the key factor in group problem-solving effectiveness.

Another explanation may be that the reported homogeneity of board members decreased the level of conflict and the subsequent need for EI skills. Several directors made mention of the careful selection process the board undertakes whenever a vacancy arises. Board members explicitly valued the homogeneity in its directors. It may have given them confidence in each other's abilities and reduced conflicts due to differences in education, cultural or business experience. Fewer differences may also require members to draw less upon relationship skills. Regular though limited board socializing may also have reinforced comfort, safety and trust between the board members, CEO and the executives. The benefit of years of working together as a board was perceived as contributing to the board's positive dynamics, an adaptiveness benefit that enhanced task performance in the white-water environment of the Australasian energy industry.

Decision rules such as majority vote or consensus are categorised as part of the task dimension. However, the board norm of deciding by consensus was viewed as an important contributor to the board's constructive relationships. Concern for each individual's agreement to the final decision reinforced the "safe environment" along with the norms of sharing one's views when they were contrary to the known views of the group, and offering support for the director who had doubts about the known views of the board. These decision rules and board norms most likely contributed to creating the "state of internal harmony" that characterised the board's task and relationship functioning. These board norms, sharing the contrary view and supporting the doubtful director, displayed the reinforcing

qualities characteristic of other factors found in this study. It would likely be more difficult to share the contrary view without the supporting and reinforcing norm of support for the doubtful director.

6.3 Contribution

This study sought to explore and enhance the governance literature's understanding about the working processes and attributes of boards of directors, assisting further the understanding of what leads to board effectiveness.

This investigation went inside a board to explore:

- what the directors and EMT said was the process used to make decisions,
- what they perceived as contributing to successful decision-making and unsuccessful decision-making,
- through observation, what they actually did in a meeting, and to compare this to what they said they did,
- whether training in a normative decision-making methodology could improve their decision-making process, and
- through empirical testing to examine assertions directors made about their attributes which contributed to the board's performance.

The research contributes to the governance literature and knowledge in the following ways:

1. By studying an in situ board and observing what the board actually did (Leblanc & Gillies, 2003),
2. By applying concepts from small group research in the social psychology (Janis, 1971) and communication (Gouran et al., 1983) disciplines to understand how board input and process variables may influence decision-making,

3. By empirically testing and measuring directors' claims of variables they perceived as significant (Mayer, Salovey, & Caruso, 2004),
4. By providing support for Hirokawa's (2000) group decision-making narratives research,
5. By providing support for the imposition of decision-making procedures to improve group decision making (Hirokawa, 1987), and
6. Through the development and advancement of a new model to understand the interdependence of the task and relationship complementaries in successful board decision-making process.

Each of these is discussed in turn in this section.

Gaining access to real decision-making groups has been cited as the barrier that prevents researchers from studying natural groups (Frey, 1994). In the governance literature, calls have been made to study board process to understand what boards actually do (Daily, Dalton, & Cannella, 2003; Hermalin & Weisbach, 2003; Huse, 2005; Leblanc et al., 2003; Pettigrew, 1992; Pettigrew & McNulty, 1995). Most of the governance literature that looks at the board behaviours and expectations draws its data from self-reports of directors from many different boards (Cornforth, 2001; Ingley & Van der Walt, 2001; Roberts et al., 2005; Walt & Ingley, 2003). In the words of Pye and Pettigrew (2005), this has made the data "a-contextual" perhaps even questionable as to what findings can be drawn about *boards' behaviour* and processes. Contingency theory reminds us that board inputs and processes must be tailored to meet contingencies facing each unique board (Pye & Pettigrew, 2005). To account for context, governance research needs to go beyond collections of stories of directors to case studies and direct observations (Huse & Schoening, 2004).

This study drew from interviews with all the directors of a board, the CEO and all but one of the senior executive team; surveys of the same; direct observation of a board meeting; and psychometric testing of the board members and CEO. The

findings lend support to some of the normative governance literature on boards, for example, the value of clarifying roles.

This research extends the literature examining the nexus between governance and group decision-making research. Specifically, this case study investigated how small group decision-making research can be applied to understanding what contributes to successful decision-making by the board of directors. Group decision-making theories offered valuable insights to understand actual board behaviours within the larger corporate governance context.

The background theory of governance and the focal theory of group decision-making are now different. The findings showed that a high performing, publicly listed company board of directors used decision-making procedures similar to those recommended in the literature (Wittenbaum et al., 2004; Janis, 1972) for its major decisions. For routine, less risky decisions, the board used natural discussion decision-making process and suffered the consequential problems associated with this approach.

Hewes (1986) and Salazar, Hirokawa, Propp, Julian and Leatham (1994) have suggested and shown through their research that both non-interactive and interactive variables must be accounted for in group decision outcomes. This study demonstrated that research into board process must account for the various attributes of the directors themselves as inputs and process mediators. It has provided evidence to direct future research toward internal factors such as trust (the primary relationship intent); the primary task intent of "acting in the best interest of the company"; training in and use of decision-making procedures and a *reminder role*; clarity of roles; vigilance strategies; quantity and quality of information; board culture and norms including decision making rules; and directors' attributes such as emotional intelligence.

The thesis findings provide support for Hirokawa et al.'s (2000) six thematic categories: structure, process, communication, relationships, emotions and member attributes. Hirokawa et al.'s (2000) research was conducted using university undergraduate students; confirmation of the findings using a bona fide, long-serving board supports their validity.

Lastly, this study suggests an interdependent model of task and relationship factors permeated by the primary intents of trust and acting in the best interest of the company. Categorisation of the task and relationship factors within the yin and yang is readily acknowledged as one of convenience rather than absolutes. The Yin and Yang Model of Board Process symbolises the interdependent nature of the task and relationship dimensions and the inputs and process factors, identified in the board decision-making process. The model draws upon and integrates multiple theories: functional decision-making theory (Gouran et al., 1983; Hirokawa, 1985; Propp & Nelson, 1996), trust theory (Barnes, 1981; Rotter, 1980; Westphal, 1999; Zand, 1972), and the groupthink and vigilance theories (Flowers, 1977; Janis, 1971 & 1972; Leana, 1985; Moorhead & Montanari, 1986).

This research suggests how studies of in situ boards' inputs and processes can be carried out using multiple data collection methods.

6.4 Limitations of the Study

Care is needed in interpreting these findings, as there are other possible explanations. One explanation for the interview data is that directors and EMT may have been aware of the common prescriptions relating to boards; they may have described these practices irrespective of their actual practice. This is unlikely in light of the supporting evidence of the multiple sources of data included in this study. The CEO, the first participant interviewed, and the CFO, the second participant interviewed, each outlined on a whiteboard the proscribed decision making procedures used by the case study company. At subsequent interviews of

the CEO, he shared written documentation of these procedures. Independent interviews were held with all participants who also gave similar descriptions of the decision making process used by the board. These were triangulated against each other in the analysis making it unlikely that the data was invalid.

Retrospective explanations of board decision-making success or failure do not necessarily equate to the actual causes of the success or failure. These narratives represent what the directors (and the CEO and executives) *thought* caused the board to make a successful or an unsuccessful decision. These may or may not be the *actual* causes of board success or failure. Ideally, research needs to focus on the actual determinants of good and poor performance. Further case study research of this type may be useful for identifying potential causal factors.

There may be other variables, perhaps even causal, influencing board process that directors and EMT have no concept of and thus could not describe or be aware of to allude to.

Several limitations can be identified in respect to this case study. First, research was limited to one board in an Australasian context. These case study findings must be viewed as context-bound generalizations, as every board is unique. One case study is generalisable to theoretical propositions, but not to populations; therefore, no statistical generalization can be made from this exploratory research. Analytic generalisation has been used to link case analysis and findings to theoretical constructs that may have application beyond the specific case (Yin, 2000). These case study findings reflect this analytical approach.

The benefits of debriefing the study participants and holding a discussion of the findings can accrue to both the participants and the research itself (Sieber, 1992; Frey, 1994). Providing the opportunity to discuss the participants' perceptions, responses and views of the findings would have potentially strengthened the

researcher's interpretation of the findings and the educational value for the participants. Discussion of the findings was offered as part of the incentive for the case study board to participate in this research. Unfortunately, before a discussion could be scheduled with the board, there was a major change in the board membership, effectively dissolving the case study board. While individual directors read excerpts of the findings and confirmed them, presentation of the key findings to the board with a discussion about how they could use this knowledge to improve their board process was not possible. The outputs and outcomes of such an intervention could have provided valuable insights, both for the board and for governance research.

While the methodology allowed the data to be gathered "as close to action and context as possible" (Pye & Pettigrew, 2005, p. S36), a limitation of the research is that it was not conducted over time in the contextual sense. Although the research took place over a six-month period, only one session was devoted to observing the board in action. Ideally, it would be insightful to observe board decision-making from a longitudinal perspective, observing board meeting interactions over many months or years (Pettigrew & McNulty, 1995). Observing the board through a major acquisition project would enable a more comprehensive view of how the board and its structured procedures actually work. Observing the board socialising could also provide insights into relationship and interactions. Observing the board's decision-making as it trialled the functional decision-making procedures or used its own documented procedures would have enabled an assessment of how well each functional task (analysing the problem, generating solutions, etc.) was performed.

The observation technique used also had several inherent limitations. The researcher was specifically prohibited by the board from using any recording devices (video, digital or tape) other than hand-written notes. This limited observation to what the researcher noticed at the time. During the times the researcher's eyes focused on her writing, the researcher was missing the body

language, actions and potentially some substantive comments due to limits on her ability to simultaneously observe and record. Two simultaneous video recordings from comprehensive, complementary perspectives of the board meeting could have captured and preserved the body language and specific word usage of all participants. Subsequent detailed analysis of these recordings could have provided much more information and potential insights into the actual board process.

The concept of *risk* has not been considered in this study. Scholars have analysed trust as "a difference in the expectancy of risk" (Rotter, 1980, p. 6). It was beyond the remit of this study to address the extent to which risk may or may not account for trust or board behaviour.

The findings, the result of interpretations, may be viewed like peepholes or snapshot insights into a still incomplete picture. These insights extend scholars' understanding of board decision-making by allowing previously inaccessible behaviours and beliefs exposure that enable greater understanding of other similar situations.

6.5 Future Research

Studying board members and boards-in-action is fraught with practical, methodological and conceptual challenges. This exploratory research and the resulting analytic generalisations may pave the way for hypothesis testing and statistical generalization if more research along the same lines were conducted; multiple case studies could lead to findings that are more generalisable.

Another approach to further research would be to deduce hypotheses from the proffered model that could be tested. For example, the concept of the relationship intent of trust as an input could be tested using Rotter's (1980) Interpersonal Trust Scale that measures generalised expectancy of trust.

The case study findings and board process model raise numerous research questions for further exploration. The concepts of trust, safe environment, decision-making rules and so on, need to be explored further to better understand them and their relationships to board process. Identification of role clarity, decision-making procedures, trust, the intent of acting in the best interest of the company, a safe environment, and the other inputs and process variables does not preclude the possibility that factors or variables yet to be identified also contributed.

Contingency factors need exploring. For example, board behaviours may be perceived differently by different types of board members. Board member attributes such as gender, board role (chair, executive, etc.), homogeneity, and other factors need to be studied to understand their relationship to board culture and board processes. The degree or minimum level of director attributes such as IQ, EI, ethics, trust and skill requirements (business acumen, financial expertise, industry knowledge, leadership, etc.) reputed to be required for a board to be able to perform effectively remain unconfirmed. Discovering whether effective boards share types and proportions of specific director attributes might provide a useful approach for evaluating input needed for effective board process. This knowledge could then be used to select board members to create a board whose profile best matched the attributes, levels and distribution most appropriate for each board's unique circumstances. Further studies focused on these issues could provide more insight into the impact of these variables on board process.

Boards of directors control the majority of the earth's 'owned' resources and decide how to use those resources for better or worse. Finding ways to improve board decision-making must be a priority in the governance field if we are to make a positive difference to the way companies and other organisations make collective decisions. Group decision-making research is a lens for investigating board of directors' collective decision-making. The antecedents that lead to

effective board decision making cannot be comprehensively understood without taking into account both the inputs and processes, task and relationship variables which shape the decision outputs of the board.

It is hoped that other researchers and boards of directors will note the approach used in this research for studying bona fide boards of directors in the decision-making context and open the boardroom to further research with the purpose of finding ways to improve board decision-making.

By bringing together the academic literature and the qualitative and quantitative data from a whole board in situ this research provides an important contribution toward developing an understanding of how boards actually work and identification of the potential factors to explore to understand how boards can be made to work better.

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APPENDIX A: INFORMATION SHEET

Board Decision-Making Processes in Publicly Listed Companies

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Aim of the Study

You are invited to take part in research which aims to identify how publicly listed boards carry out their decision-making.

Participants in the Study

Interviews, questionnaires, and discussions will be conducted with publicly listed boards of directors and their CEOs. Participation is voluntary and confidentiality assured.

What Participation Involves

Participation involves

- 1) completing a data sheet that asks your age, gender, general governance background and for you to fill-in several rating scales as a prelude to an interview that aims to find out your views about how your board carries out its decision-making tasks.
- 2) an initial individual interview, which may take up to 60 minutes; it will be recorded on tape and later transcribed as text.
- 3) tape recording a board decision-making session for analysis of process only; all identifying content names will be replaced with pseudonyms such as "ABC".

4) The researcher will provide a short board training session on a highly regarded decision-making methodology, a benefit to the board. A short questionnaire follows the training. After initial analysis of the data, the researcher may request participants to explore further possible explanations through short questionnaires.

5) When the data has been analysed, the researcher will present to the boards a short summary of the research findings. This is an opportunity for participants to hear the findings first, ask any questions about the study and to add any comments they would like included in the research report.

This is exploratory research, meaning that I am not looking for a specific answer or outcome beyond discovering what processes boards use to make decisions, how these processes impact on directors and whether particular processes can benefit well-functioning boards. No research of this type has been conducted with boards anywhere (or if it has, it has never been published). This is an opportunity to gain insight into what makes well-functioning boards work. It may not be the decision-making processes per se, but may be the attitudes/insights/competences of the individual board members or something entirely unexpected. I have no particular outcome I am looking for- just to work with cooperative, well-functioning boards and to discover together whatever can be learned. My goal is to see the situation from the perspective of those involved.

I will accommodate your organisation in any way I can including modifying my research design should that be required.

In any publications that result from the research, brief verbatim quotations may be used to illustrate relevant points but measures will be taken to ensure the identity of individual participants and organisations will remain concealed. I will not reveal the names of participants or their organisations to anyone except my supervisors. To ensure your confidentiality is protected, I ask that you also do not disclose your participation in this research to anyone outside the board. Occasionally, a study's

findings are so compelling and complimentary that an organisation wants to be identified to gain acknowledgement and recognition for their actions. Should this be the case, a written agreement authorizing identification would need to be signed by both parties.

Benefits of the Research

The research intends to:

- identify how boards of directors in publicly listed companies carry out their decision-making tasks
- explore how these board processes impact on individual directors and the CEO
- explore whether “recommended” decision-making processes offer any benefits
- explore characteristics that may account for the boards’ functionality.

Risks from Participation

It is not anticipated that there will be any risks resulting from participation in the study.

Your Rights if You Agree to Take Part in the Research

You may withdraw from the study at any time and refuse to answer any particular questions. You may ask questions before, during and after the study. All information you supply will remain completely confidential to the researcher and any necessary assistant (e.g. transcribers who will sign a confidentiality agreement). All tapes and records will be identified by code and transcripts will only be seen by the researcher. All participants will be given access to a summary of the findings from the study. Every effort will be made to ensure that it is not possible for others to identify you or your organization in any publications that result from the study unless you have signed an authorization stating otherwise.

Consent Form and Data Sheet

A copy of the Consent Form and the Information Sheet will be given to each participant at the initial interview.

Queries

If there are queries in relation to any aspect of the research, please don't hesitate to contact the Principal Researcher, Karen Martyn, email: ks@docmartyn.com, (04) 4791221, mobile 025 975447.

APPENDIX B: RESEARCH PARTICIPATION CONSENT FORM

Board Decision-Making Processes in Publicly Listed Companies

- 1) I agree to participate in the interviews, questionnaires, presentations and discussions pertaining to **“Board decision-making processes in publicly listed companies”**.
- 2) I agree to have the information I provide included in a published report subject to all details pertaining to my personal identity remaining confidential and not revealed in the report, unless I give written consent to the contrary.
- 3) In any academic publications that result from the research, brief verbatim quotations may be used to illustrate relevant points but measures will be taken to ensure the identity of individual participants and organisations will remain concealed.
- 4) I understand that the individual information gained during the course of the research, such as tapes and interview transcripts will be stored in a secure archive, accessible only via the researcher, in the Department of Management at Massey University.
- 5) If I agree to participate in an interview, I understand that I will have the opportunity to comment on the summation of that interview.
- 6) This project has been reviewed, judged to be low risk, and approved by the researcher and supervisor under delegated authority from the Massey

University Human Ethics Committee. If you have any concerns about the conduct of this research, please contact Professor Sylvia Rumball, Assistant to the Vice-Chancellor (Equity & Ethics), telephone 06 350 5249, e-mail humanethics@massey.ac.nz.

.....
Signature of Participant

.....
Date

APPENDIX C: LETTER TO BOARD PROPOSING EXPANSION OF RESEARCH

22 June 2004

To the Board of HP COMPANY
C/o Chairman
Via Email

CC: CEO

Subject: Governance Research and Board Profile Proposal

Gentlemen and Gentle Director 7

Please accept my thanks for your time and cooperation in providing me with individual interviews, attendance at a board decision-making session and the opportunity to present the functional decision-making training yesterday. I should have said at the start that my presentation in no way implied that the Board was not already utilizing good decision-making processes. The HP COMPANY board is already high performing and could potentially serve as a model for good governance.

As I indicated at the meeting yesterday, I am requesting to broaden the scope of my research on your board. Whatever negative connotation "scope creep" may have in normal circumstances, in this instance it does not apply. Further

research can provide many benefits at very little "cost" for the company, the board, individual directors, CEO, the directing profession and my research.

Benefits

- Feedback to the board from the Functional Decision-making Post-training Survey (directors' views on the potential value of the functional decision-making procedure, the board's current use of these decision-making procedures, etc.)
- Greater insights into the variables (experience, skills, emotional intelligence, etc.) that may contribute to the board's high-performance
- An in-depth profile of the board's composition and skills mix to assist the board in future succession planning

Additional/Remaining Research

22/23 July: Interview senior managers who attend board meetings (as acting CEO) and follow-up interview with the Chair

July Board Meeting: Application of the Functional Decision-making Procedures for a decision/item and short survey

August Board Meeting: Presentation of initial analysis of interviews, May decision-making session, post-training survey, post application survey

To quantify board (and CEO) composition and skills: request, receipt and analysis of individual board members curriculum vitae

individual board members and CEO participation in short psychometric measures (probably a paper and pencil emotional intelligence test, verbal reasoning, possibly moral development) -- these would be done at the convenience of the individual directors and if any have already undertaken these measures/indicators and we can obtain the results, then they would not be necessary

A final presentation at the board's convenience of my final draft findings to give the board the opportunity to hear the final draft conclusions and to make comments and suggestions to be incorporated in the final version

As you can see, the additional/remaining Research requires very little of the board's time and very little of individual director's time. The benefits of this additional research truly outweigh the inputs required. What's more, if an individual director is unwilling to participate in the short psychometric measurement, it will detract but not invalidate the validity of the board Profile and my research. I would hope that everyone would be willing to participate and I would do everything within my power to accommodate them.

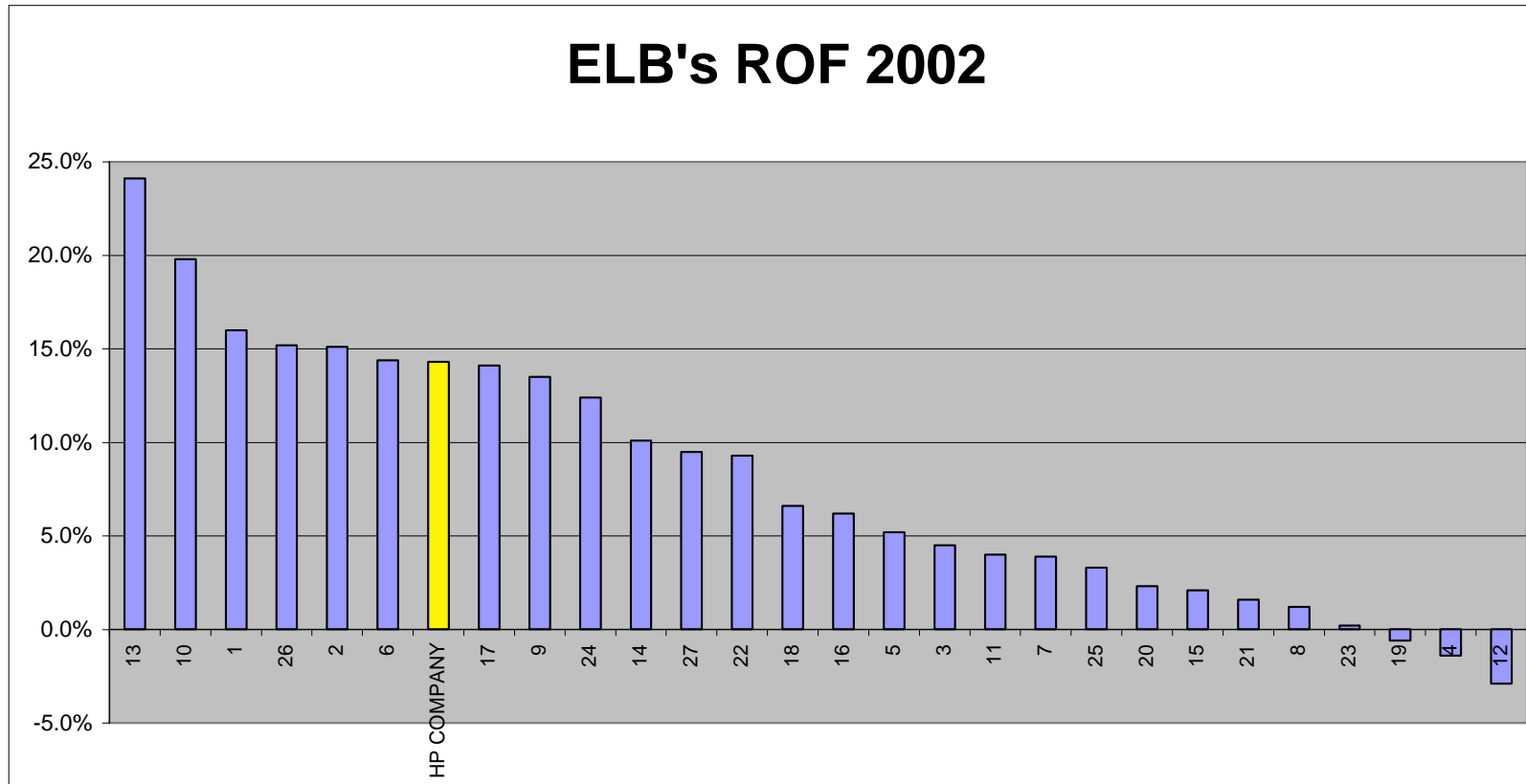
Given the possibility that this board may be restructured or for whatever reason require replacement director(s) in the near future, understanding the unique mix of Directors could be invaluable as a guide to establishing future high-performing boards.

I am asking for your cooperation for short time longer to create something much more valuable for everyone.

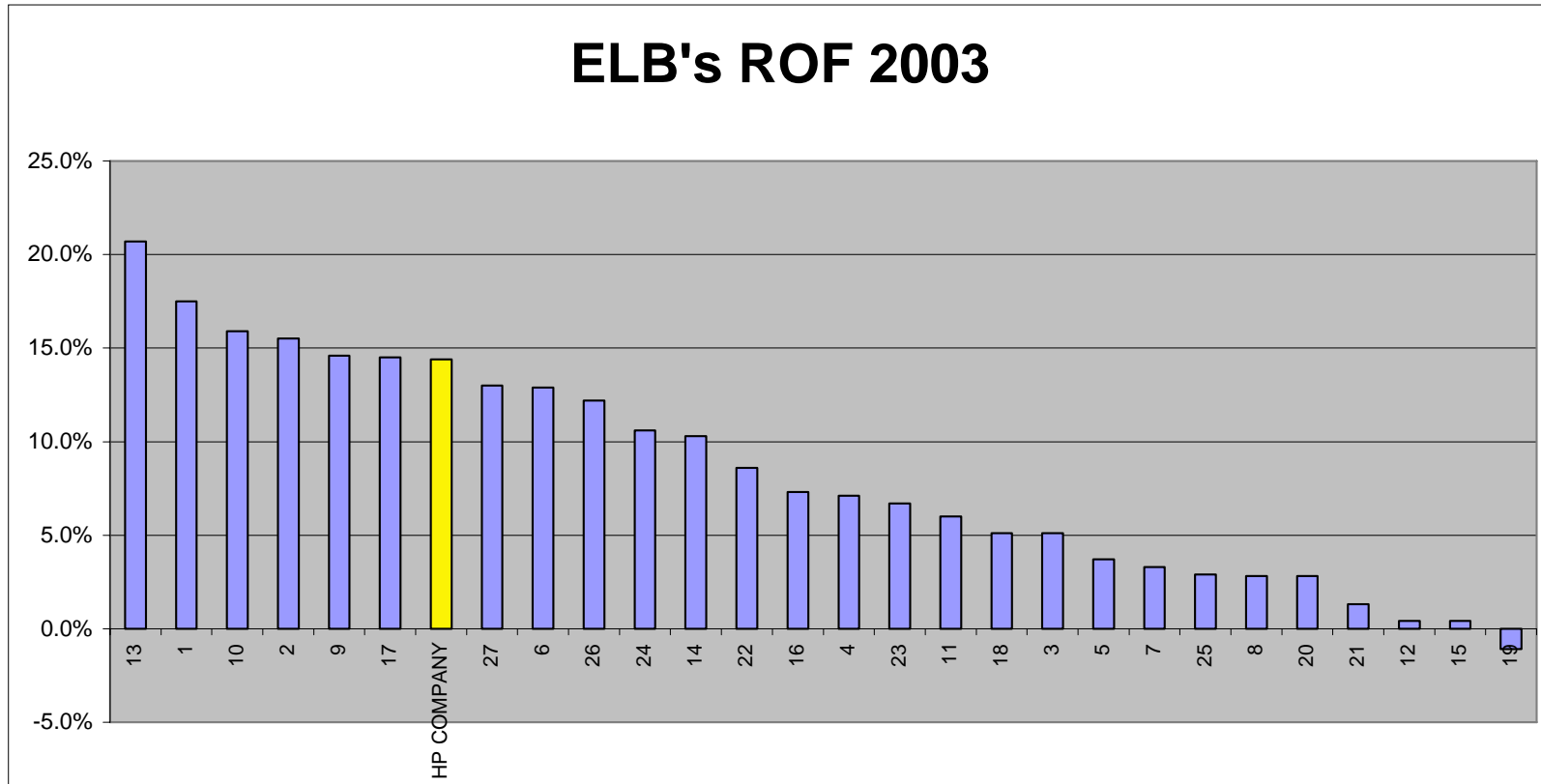
Please let me know if I can clarify anything or make any adjustments to support this project.

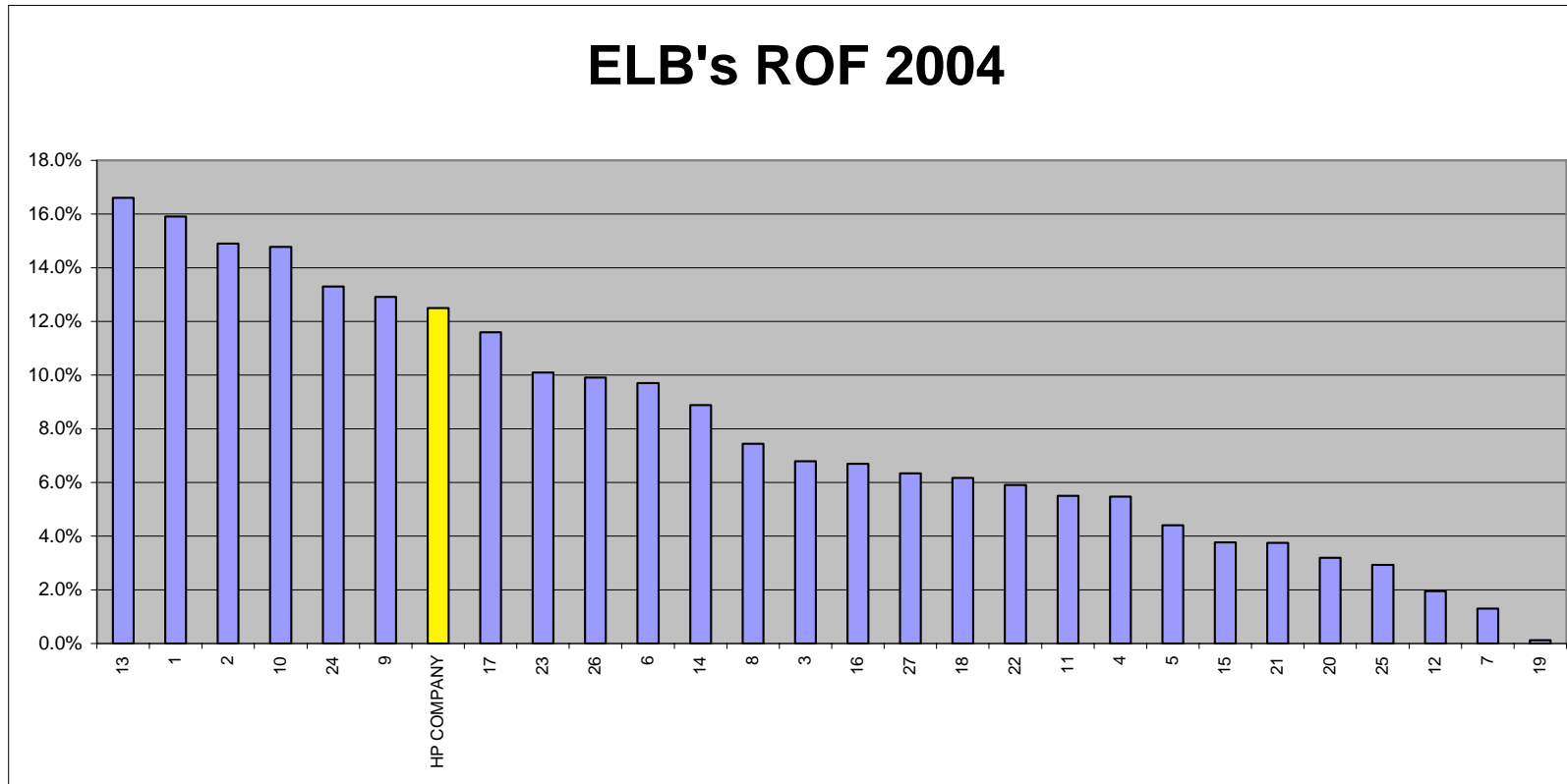
Sincerely yours

Karen Martyn

APPENDIX D: RETURN ON FUNDS CHARTS

NB: Each number indicates a company name. I have substituted HP COMPANY for the case study company.





4. Performance Measures

MED reference	Efficiency Measures			Delivery Efficiency Measures			2004 Financial Measures			2003 Financial Measures			2002 Financial Measures		
	Direct Line Costs/km	Indirect Line Costs/ICP	Load Factor	Loss Ratio	Capacity Utilisation	ROF	ROE	ROI	ROF	ROE	ROI	ROF	ROE	ROI	
	DirLineKm	IndirLineCust	LoadFactor	LossRatio	CapUtil	ROF	ROE	ROI	ROF	ROE	ROI	ROF	ROE	ROI	
1	\$1,150	\$23	69.5%	6.4%	35.1%	15.9%	11.3%	38.2%	17.5%	11.7%	12.1%	16.0%	10.6%	10.8%	
2	\$2,131	\$31	58.7%	6.3%	32.5%	14.9%	28.9%	31.6%	15.5%	46.5%	9.3%	15.1%	32.0%	9.0%	
3	\$2,548	\$111	64.0%	9.0%	27.0%	6.8%	4.6%	10.4%	5.1%	3.6%	3.6%	4.5%	3.9%	2.9%	
4	\$517	\$114	67.0%	7.0%	26.0%	5.5%	5.8%	28.5%	7.1%	4.8%	4.6%	-1.4%	-0.7%	-2.3%	
5	\$1,080	\$72	63.5%	6.5%	32.0%	4.4%	3.7%	18.5%	3.7%	3.2%	3.2%	5.2%	7.5%	6.8%	
6	\$744	\$61	62.7%	7.6%	28.2%	9.7%	8.8%	23.2%	12.9%	15.0%	9.3%	14.4%	13.8%	2.4%	
7	\$1,746	\$44	51.5%	6.6%	29.0%	1.3%	0.3%	32.1%	3.3%	2.4%	3.9%	3.9%	3.4%	3.0%	
8	\$934	\$51	50.2%	8.7%	30.6%	7.4%	5.3%	17.8%	2.8%	0.5%	1.0%	1.2%	0.7%	0.7%	
9	\$1,779	\$58	52.6%	8.3%	42.3%	12.9%	8.6%	20.8%	14.6%	9.6%	9.7%	13.5%	8.6%	8.2%	
10	\$677	\$69	76.3%	3.5%	46.2%	14.8%	13.2%	27.5%	15.9%	15.3%	10.0%	19.8%	22.3%	12.7%	
11	\$758	\$74	69.7%	4.6%	24.0%	5.5%	4.5%	25.8%	6.0%	4.6%	-0.4%	4.0%	3.1%	3.1%	
12	\$1,005	\$117	67.6%	5.9%	22.7%	2.0%	1.1%	28.2%	0.4%	-0.1%	5.1%	-2.9%	-2.2%	-4.3%	
13	\$2,536	\$92	56.1%	5.8%	36.8%	16.6%	11.7%	57.0%	20.7%	13.0%	12.8%	24.1%	14.7%	14.0%	
14	\$1,258	\$43	64.4%	3.9%	42.5%	8.9%	6.1%	42.9%	10.3%	7.0%	7.3%	10.1%	6.6%	6.9%	
15	\$804	\$41	61.2%	5.7%	26.9%	3.8%	2.6%	24.1%	0.4%	-0.8%	-1.8%	2.1%	0.9%	-3.8%	
16	\$1,081	\$46	77.9%	3.5%	31.8%	6.7%	4.8%	24.1%	7.3%	5.4%	5.5%	6.2%	4.2%	4.1%	
17	\$1,198	\$62	62.4%	4.9%	36.1%	11.6%	8.0%	34.1%	14.5%	9.6%	8.8%	14.1%	10.0%	7.7%	
18	\$534	\$33	76.0%	7.4%	39.3%	6.2%	6.1%	42.7%	5.1%	5.0%	31.2%	6.8%	3.8%	3.9%	
HP COMPANY	\$1,117	\$66	67.2%	6.8%	26.8%	10.5%	10.5%	37.9%	14.4%	12.7%	9.7%	14.3%	12.2%	9.6%	
19	\$887	\$47	69.8%	7.1%	26.0%	0.1%	-0.1%	21.6%	-1.1%	-1.2%	-1.6%	-0.6%	-1.5%	-1.8%	
20	\$582	\$42	59.8%	7.3%	29.6%	3.2%	1.2%	25.1%	2.8%	2.0%	7.7%	2.3%	2.1%	-6.4%	
21	\$638	\$44	67.9%	8.4%	34.5%	3.8%	2.7%	34.5%	1.3%	0.3%	0.6%	1.6%	0.8%	-12.4%	
22	\$1,087	\$68	65.0%	6.8%	33.0%	5.9%	-2.4%	24.6%	8.6%	6.2%	6.0%	9.3%	6.4%	6.9%	
23	\$1,030	\$58	65.8%	4.5%	29.4%	10.1%	20.0%	33.4%	6.7%	6.1%	17.7%	0.2%	0.9%	0.7%	
24	\$1,517	\$92	59.8%	4.7%	40.4%	13.3%	77.9%	21.9%	10.6%	13.6%	11.2%	12.4%	8.8%	7.4%	
25	\$1,005	\$55	65.0%	6.2%	33.4%	2.9%	1.2%	22.7%	2.9%	0.9%	1.9%	3.3%	1.1%	2.0%	
26	\$1,042	\$71	57.6%	4.9%	37.6%	9.9%	6.5%	16.6%	12.2%	7.6%	7.4%	15.2%	10.2%	9.7%	
27	\$1,681	\$105	65.6%	7.0%	31.0%	6.3%	4.5%	16.4%	13.0%	10.3%	8.8%	9.5%	6.7%	7.9%	
Mean	\$1,181	\$64	64.1%	6.3%	32.5%	8.0%	9.2%	28.0%	8.4%	7.7%	7.3%	8.0%	6.8%	3.9%	
Median	\$1,061	\$60	64.7%	6.4%	31.9%	6.7%	5.5%	25.5%	7.2%	5.8%	7.4%	6.4%	5.3%	4.0%	
Minimum	\$517	\$23	50.2%	3.5%	22.7%	0.1%	-2.4%	10.4%	-1.1%	-1.2%	-1.8%	-2.9%	-2.2%	-12.4%	
Maximum	\$2,548	\$117	77.9%	9.0%	46.2%	16.6%	77.9%	57.0%	20.7%	46.5%	31.2%	24.1%	32.0%	14.0%	

Return on Investment "ROI" =
$$\frac{\text{EBIT} + \text{Amortised Goodwill} + \text{Subvention Payments} + \text{ODV depreciation Adjustment} - \text{Subvention Tax Adjustment} - \text{Income Tax} - \text{Interest Tax Shield} + \text{Revaluations}}{\text{Average Total Funds Employed} - \text{Average Works under Construction} - (\text{Revaluations}/2)}$$

Return on Funds "ROF" =
$$\frac{\text{EBIT} + \text{Amortised Goodwill} + \text{Subvention Payments} + \text{ODV depreciation Adjustment}}{\text{Average Total Funds Employed} - \text{Average Works under Construction}}$$

Return on Equity "ROE" =
$$\frac{\text{NPAT} + \text{Amortised Goodwill} + \text{Subvention Payments} + \text{ODV depreciation Adjustment} - \text{Subvention Tax Adjustment}}{\text{Average Total equity} - \text{Average Works under Construction} - \text{Average Intangible Assets} + \text{Average Subvention Payment and Tax Adjustment}}$$

ROF 2004		ROF 2003		ROF 2002	
13	16.6%	13	20.7%	13	24.1%
1	15.9%	1	17.5%	10	19.8%
2	14.9%	10	15.9%	1	16.0%
10	14.8%	2	15.5%	26	15.2%
24	13.3%	9	14.6%	2	15.1%
9	12.9%	17	14.5%	6	14.4%
HP COMPANY	12.5%	HP COMPANY	14.4%	HP COMPANY	14.3%
17	11.6%	27	13.0%	17	14.1%
23	10.1%	6	12.9%	9	13.5%
26	9.9%	26	12.2%	24	12.4%
6	9.7%	24	10.6%	14	10.1%
14	8.9%	14	10.3%	27	9.5%
8	7.4%	22	8.6%	22	9.3%
3	6.8%	16	7.3%	18	6.6%
16	6.7%	4	7.1%	16	6.2%
27	6.3%	23	6.7%	5	5.2%
18	6.2%	11	6.0%	3	4.5%
22	5.9%	18	5.1%	11	4.0%
11	5.5%	3	5.1%	7	3.9%
4	5.5%	5	3.7%	25	3.3%
5	4.4%	7	3.3%	20	2.3%
15	3.8%	25	2.9%	15	2.1%
21	3.8%	8	2.8%	21	1.6%
20	3.2%	20	2.8%	8	1.2%
25	2.9%	21	1.3%	23	0.2%
12	2.0%	12	0.4%	19	-0.6%
7	1.3%	15	0.4%	4	-1.4%
19	0.1%	19	-1.1%	12	-2.9%

APPENDIX E: POWERPOINT TRAINING INTERVENTION

Functional Decision-Making
presented in partial fulfillment of PhD requirements

by K.S. Martyn

21 June 2004

Procedures to:

**Ensure a thorough information search and discussion of alternative
solutions**

De-personalise debate

Seven defective decision-making processes

Not considering a number of alternatives

*Not discussing objectives or discussing them so briefly that the major values for
the choices made are not taken into account*

Not examining the consequences of the preferred solution

*Not obtaining necessary information for critically evaluating the pros and cons of
the preferred course of action*

*Not confronting non-supporting information or examining their own biases for
particular solution*

Not reconsidering the cause and benefits of previously rejected alternatives

Not developing implementation or contingency plans.

Benefits of Functional Decision Making Procedures

1. *More awareness of decision-making procedures*
2. *Higher perceived creativity of the process and outcome*
3. *Improved appropriateness of time invested toward completing the decision and achieving completing decisions within agreed or expected timeframes*
4. *Improved perception of utilization of group member resources*
5. *Improved satisfaction with group discussion*
6. *Improved satisfaction with board decisions (decision quality)*
7. *Improved satisfaction with decision-making process*
8. *Improved satisfaction with group itself (group attractiveness)*
9. *Improved acceptance of the decision*

Assumptions underlying functional theory

Members of the decision-making or problem-solving group are motivated to make an appropriate choice.

The choice confronted is nonobvious.

The collective resources of the group in respect of the particular task exceed those of individual members.

The requisites (outcomes) of the task are specifiable.

Relevant information is available to the members or can be acquired.

The task is within the intellectual capabilities of the members to perform.

One or more the members of the group must be capable of recognizing and interpreting the signs of unwanted cognitive, affiliative, and egocentric constraints.

Communication is instrumental.

Members are aware of how well interaction is serving to satisfy fundamental task requirements.

Members will take steps to minimize and counteract sources of influence that limit prospects for adequately fulfilling fundamental task requirements.

Fundamental Task Requirements

- I. Identify and assess the problem*
- II. Generate alternative proposals*
- III. Agree objectives to be accomplished*
- IV. Evaluate positive and negative outcomes of each alternative and satisfaction of objectives*

I. Identify and assess the problem

- 1. Errors such as the group's failure to recognize the problem and the group's failure to identify the course of the problem are most likely to occur earlier in the analysis.*
- 2. A group must recognize and identify the cause of the problem for effective group decision-making.*

II. Generate alternative proposals

The board generates alternative courses of action available.

III. Agree objectives to be accomplished

*In the decision making process, a high-quality choice occurs when the board strives to attain objectives that would improve the problematic situation.
Objectives (or criteria for an ideal solution) should be prioritised.*

IV. Evaluate positive and negative outcomes and satisfaction of objectives of each alternative

There are four types of errors that can affect a board's effort to make a high-quality choice:

- a. Failure to recognize the positive qualities of available choices.*
- b. Failure to recognize negative qualities of available choices.*
- c. Overestimation of the positive qualities of available choices.*
- d. Overestimation of negative qualities of available choices.*

V. Select alternative/solution that best meets objectives/criteria; apply performance measures/monitor

Conclusion: A group will most likely succeed at arriving at a high-quality choice by analysing the problematic situation correctly, establishing accurate goals and objectives, evaluating the positive and negative qualities of available choices, and properly utilizing the available information. This system of reasoning allows the group to arrive at a high-quality choice.

Prompts for the Reminder

Shouldn't we give some thought to...?

Haven't we perhaps overlooked...?

considering a number of alternatives

discussing objectives

examining the consequences of the preferred solution

obtaining necessary information for critically evaluating the pros and cons of the preferred course of action

confronting non-supporting information or examining their own biases for particular solution

reconsidering the cause and benefits of previously rejected alternatives

developing implementation or contingency plans.

Satisfying functional task requirements is necessary as well as One or more the members of the group must be capable of recognizing and interpreting the signs of unwanted cognitive, affiliative, and egocentric constraints.

Cognitive, Affiliative, and Egocentric Constraints

Cognitive constraints relate to perceptions of the adequacy or perceived deficiencies of resources (information, time and skills necessary for performing the task) available to group members for making decisions or finding solutions to problems.

The task is usually one for which information is limited

Time pressures are substantial

Issues are excessively complex

Any combination of these

Responding to cognitive constraints

Acknowledge the similarity of the present situation to others rather than to deny, but also to make a conscious effort to look for differences.

What deficiencies in resources (e.g., information, time, and expertise) do we perceive?

What realistic possibilities exist for overcoming these deficiencies?

Affiliative Constraints

Arises from concern to avoid impairing relationships between board members

Protecting relationships and the well-being of the group can shift the focus of inquiry from making the best choice to the accommodation of differences in point to view

Responding to affiliative constraints

Cultivate habit of securing agreement at start of decision making discussion

agreement about objectives to be achieved

Make overt calls for disagreement (critical evaluators)

Egocentric Constraints

Derive from the personal needs of the members (typically needs concerned with control)

Responding to egocentric constraints

Heighten awareness of nature of relationships

Engage the more powerful and controlling in self-reflection and examination

The role of the *Reminder*

To counteract any tendency to any of the defective decision-making processes

To maximise effective decision-making:

Make clear the interest in arriving at the best possible decision

Identify the resources necessary for making such a decision

Recognize possible obstacles to be confronted

Specify procedures to be followed

Establish ground rules for interaction

Attempt to satisfy fundamental task requirements by

- *Showing correct understanding of the issues to be resolved*
- *Determining the minimal characteristics any alternative, to be acceptable, must possess*
- *Identifying a relevant and realistic set of alternatives*

- *Examining carefully the alternatives in relationship to each previously agreed-upon characteristic of an acceptable choice*
- *Selecting the alternatives that analysis reveals to be most likely to have the desired characteristics*
- *Employ appropriate interventions for overcoming cognitive, affiliative, and egocentric constraints that are interfering with the satisfaction of fundamental task requirements*
- *Review the process by which the board comes to a decision and, if indicated, reconsider judgments reached (even to the point of starting over).*

APPENDIX F: PROMPTS FOR THE *REMINDER* HANDOUT

Functional Decision-making tasks (may be done in any order and may be cycled through several times if necessary):

- 1) Define the problem/issue
 - 2) Agree and prioritise criteria for a good/ideal solution
 - 3) Generate possible options/solutions
 - 4) Evaluate positive and negative consequences of each option against criteria for a good solution
 - 5) Select/create option/solution that best satisfies criteria for a good solution
- Make clear the interest in arriving at the best possible decision
 - Identify the resources necessary for making such a decision
 - Recognize possible obstacles to be confronted
 - Specify procedures to be followed
 - Establish ground rules for interaction
 - Attempt to satisfy fundamental task requirements by
 - Showing correct understanding of the issues to be resolved
 - Determining the minimal characteristics any alternative, to be acceptable, must possess
 - Identifying a relevant and realistic set of alternatives
 - Examining carefully the alternatives in relationship to each previously agreed-upon characteristic of an acceptable choice
 - Selecting the alternatives that analysis reveals to be most likely to have the desired characteristics
 - Employ appropriate interventions for overcoming cognitive, affiliative, and egocentric constraints that are interfering with the satisfaction of fundamental task requirements

- Review the process by which the board comes to a decision and, if indicated, reconsider judgments reached (even to the point of starting over).

To counteract any tendency to any of the seven defective decision making processes, a *reminder* could ask in regard to the process:

Shouldn't we give some thought to...?

Haven't we perhaps overlooked...?

- *considering a number of alternatives*
- *discussing objectives*
- *examining the consequences of the preferred solution*
- *obtaining necessary information for critically evaluating the pros and cons of the preferred course of action*
- *confronting non-supporting information or examining their own biases for particular solution*
- *reconsidering the cause and benefits of previously rejected alternatives*
- *developing implementation or contingency plans.*

To counteract a tendency for boards to be swayed by majority opinion, *reminders* could ask:

Why do you think this proposal will work?

To counteract a board's premature decision, a *reminder* could say:

Maybe we shouldn't decide on our choices until we've spent a little more time analyzing other choices.

Checklist of questions to help *reminders* perform the *reminder* function:

- *Do we have enough evidence to support our choice for a solution?*
- *Have we looked at a sufficient number of alternatives?*
- *Have we re-examined alternatives we rejected previously?*

- *Have we avoided stereotypical thinking or premature judgment?*

Responding to Cognitive Constraints:

Reminding group members of the dangers of adopting past actions and by attempting to identify what is unique about the present situation

What deficiencies in resources (e.g., information, time, and expertise) do you/we perceive? What realistic possibilities exist for overcoming these deficiencies?

Make salient the possible costs associated with choosing unwisely or inappropriately under conditions in which the consequence of being wrong can be substantial.

Responding to Affiliative Constraints:

Ask members to re-confirm that an acceptable choice is independent of personal preferences or perceived need of group to present a united front.

Ask members to re-commit to making best choice.

Remind members to examine merits of ideas not the source and to make conscious efforts to separate issues from personalities.

Responding to Egocentric Constraints:

1) Heighten awareness of nature of relationships:

- a) *We need everybody's best thinking on this issue.*
- b) *We all have a stake in the outcome*
- c) *If we cannot reach consensus, we will have to decide by majority vote.*

2) Engage the more powerful and controlling members in self-reflection and examination:

- a) *Could you share a little more of the thinking behind your position?*
- b) *Do we have sufficient evidence to draw that conclusion?*
- c) *Might it not be a good idea to suspend judgment until we have considered the other options?*
- d) *What reservations do you have about going ahead with this plan?*
- e) *What do the people in (management/shareholders/whoever) have to say about this idea?*

APPENDIX G: INITIAL INTERVIEW SURVEY

Question 3 (one-page survey):

Please rate in order of importance/contribution the following possible factors in your board success story and your board failure story: 1= most important/contributed most to outcome 7=least important/least contribution to outcome	Success Story	Failure Story
Relationships -- those associated with interpersonal relationships among group members parenthesis e.g., camaraderie, teamwork, close friendships, cohesiveness, supportive relationships and team unity, liked each other		
Group structure -- those associated with the leadership, organization, roles, norms, and goals of the group (e.g., common goals, delegated responsibilities, good leadership, high standards, matched members skills to tasks, division of labor, roles and responsibilities, preparation, shared values		
Group process -- those associated with the procedures and activities of the group and its members (e.g. efficiency, highly organized, coordinated effort, effective strategy, flexible and cooperative, examined alternatives, and evaluated pros and cons of all options, worked hard, good strategy, well-prepared, examined all options		
Member emotions -- those associated with the feelings and motivations of group members (e.g. fear, enjoyment, pleasure, excitement, pride, trust, overconfidence, etc.)		
Group communication -- those associated with the exchange of information and ideas among group members (e.g. open discussion, good listening, all opinions heard, equal participation in contributions, feedback and positive communication, openness and honesty, effective listening, information sharing)		
Member attributions -- those associated with the knowledge and skills of group members (e.g. commitment, dedication, superior skills, ingenuity and creativity, very knowledgeable, lots of experience, and hard-working, high motivation, ability and skill		

APPENDIX H: POST-TRAINING SURVEY

Please circle your rating on the scale below each statement given.

	Not at all									Completely	
	-5	-4	-3	-2	-1	0	1	2	3	4	5

To what extent did you:

1) Fully understand the functional decision making procedure?

	-5	-4	-3	-2	-1	0	1	2	3	4	5
--	----	----	----	----	----	---	---	---	---	---	---

2) Fully understand the three constraints?

	-5	-4	-3	-2	-1	0	1	2	3	4	5
--	----	----	----	----	----	---	---	---	---	---	---

3) Think the functional decision making procedure would be useful for your board?

	-5	-4	-3	-2	-1	0	1	2	3	4	5
--	----	----	----	----	----	---	---	---	---	---	---

4) Think that your board already uses the functional decision making procedure?

	-5	-4	-3	-2	-1	0	1	2	3	4	5
--	----	----	----	----	----	---	---	---	---	---	---

5) The use of a *Reminder* could improve your board's decision making discussions?

-5 -4 -3 -2 -1 0 1 2 3 4 5

6) Think you might employ the *Reminder* 'prompts' in future board discussions?

-5 -4 -3 -2 -1 0 1 2 3 4 5

7) Agree that the assumptions underlying the functional theory are met by your board?

-5 -4 -3 -2 -1 0 1 2 3 4 5

8) Believe that your board would receive the benefits of functional decision making if your board adopted the functional decision making procedures?

-5 -4 -3 -2 -1 0 1 2 3 4 5

9) Think that your board already satisfies each of the following function task requirements:

a) *Identify and assess the problem*

-5 -4 -3 -2 -1 0 1 2 3 4 5

b) *Generate alternative proposals*

-5 -4 -3 -2 -1 0 1 2 3 4 5

c) *Agree objectives to be accomplished*

-5 -4 -3 -2 -1 0 1 2 3 4 5

d) Evaluate positive and negative outcomes of each alternative and satisfaction of objectives

-5 -4 -3 -2 -1 0 1 2 3 4 5

10) One or more the members of the board is capable of recognizing and interpreting the signs of unwanted cognitive, affiliative, and egocentric constraints?

-5 -4 -3 -2 -1 0 1 2 3 4 5

11) Think that the presentation content was valuable to your board?

-5 -4 -3 -2 -1 0 1 2 3 4 5

APPENDIX I: POST-TRIAL SURVEY

Please circle your rating on the scale below each statement given.

Not at all

Completely

-5 -4 -3 -2 -1 0 1 2 3 4 5

To what extent did you?

1. Think that the discussion and decision-making satisfied each of the following functional task requirements:

(a) Identify and assess the problem?

-5 -4 -3 -2 -1 0 1 2 3 4 5

(b) Generate alternative proposals/options/solutions?

-5 -4 -3 -2 -1 0 1 2 3 4 5

(c) Agree criteria for a good solution (objectives to be accomplished)?

-5 -4 -3 -2 -1 0 1 2 3 4 5

(d) Evaluate positive outcomes of each alternative and satisfaction of objectives?

-5 -4 -3 -2 -1 0 1 2 3 4 5

(e) Evaluate negative outcomes of each alternative and satisfaction of objectives?

-5 -4 -3 -2 -1 0 1 2 3 4 5

3) Think the functional decision-making procedure (overtly satisfying each of the tasks above) improved the overall quality of the discussion?

-5 -4 -3 -2 -1 0 1 2 3 4 5

4) Think the designation of **reminders** assisted the board to ensure all the functional tasks were satisfied to a high standard?

-5 -4 -3 -2 -1 0 1 2 3 4 5

5) Think you might employ the role of the **reminder** in future board discussions?

-5 -4 -3 -2 -1 0 1 2 3 4 5

8) Believe that your board would receive the benefits of functional decision-making if your board adopted the functional decision-making procedures for important decisions?

-5 -4 -3 -2 -1 0 1 2 3 4 5

APPENDIX J: DEMOGRAPHIC DATA QUESTIONNAIRE

27 October 2004

Hello

Could you please fill out the enclosed demographic data form and post it back to me in the enclosed self-addressed stamped envelope?

Thank you and please don't hesitate to contact me with any queries, questions or concerns about this research.

Sincerely

K.S. Martyn

PO Box 22-173

Khandallah

Tel 04 479 1221

Mobile 0274 975 447

APPENDIX K: GLOSSARY OF KEY DEFINITIONS

Board and director(s) refers only to the seven appointed directors who were serving on the case study board and includes the Chair of the board unless specifically noted otherwise.

CEO is the abbreviation for Chief Executive Officer.

Chair is used as a gender-neutral term for what is traditionally called the Chairman of the board.

Effective/successful: These are relative terms used to indicate performance perceived to be adequate to superior in decision-making. At the corporate level, effective or successful company performance was measured by comparing return on funds (ROF) of energy companies operating in New Zealand. The case study company was in the upper quartile of the companies compared and thus categorised as effective and successful.

Executive(s) refers to the four (out of five) executive team members, direct reports to the CEO, who regularly attended board meetings in their capacity as CFO, legal counsel and/or Acting CEO. For ease of clarification, the CEO's views are specifically identified or included only when referring to the executive management team (EMT).

Executive management team (EMT) includes the CEO and his four (out of five) direct reports who participated in the study.

Failure/unsuccessful are terms used to refer to board decision-making that was unsatisfactory in process and consequently the resulting outcome.

Internal factors are the variables (a) categorised as either *input or process* variables (some are both) (b) that contribute positively or negatively to board decision-making, and (c) that are under the control of the board (or the director selection process in the case of individual director characteristics or attributes) and hence may offer means of improving board decision-making.