

## **Performance Impact of the Fit Between Manufacturing Priorities of General Managers and Manufacturing Managers**

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### **INTRODUCTION**

The concept of "fit" is central to research in the field of strategic management (Venkatraman 1989; Miles and Snow 1978; Hrebiniak and Joyce 1984). Some of the seminal studies of the field have used the concept in various ways as a cornerstone of theory-building. Chandler (1962), in his classic work, emphasized the importance of internal fit, matching structure with strategy. Others have emphasized external fit, aligning the organization's strategy with an appraisal of outside opportunities and threats (Ansoff 1965), with an analysis of competitive forces in the industry (Porter 1980) or with emerging market opportunities (Von Hippel 1982). More recently, Prahalad and Hamel (1990) have argued for a resource-based view of strategy, creatively deploying an organization's core competencies and finding market opportunities that fit those competencies. An important corollary of achieving fit is presumed to be enhanced organizational performance, just as a lack of fit is expected to produce diminished performance.

"Intraorganizational consistency of objectives" must also be ensured (Hrebiniak and Joyce 1984). Indeed, the notion that different levels of strategy - most frequently identified as corporate, business and functional levels - should complement and support (i.e., fit) each other is a fundamental principle of the strategic management field. Strategic intent cascades from the top levels of the organization to influence and mold lower levels of strategy. The corporate strategy is the umbrella for all other levels. Within parameters set by corporate strategy, each distinct business within the corporation may craft its own business strategy. This strategy reinforces corporate strategy and, in turn, is supported by functional level strategies, such as marketing, manufacturing, and finance strategies. In theory then, lower levels of strategy are consistent with higher levels of strategy so as to foster their successful implementation. This view is aptly stated by Lingle and Schiemann (1996): "Effective organizations are organic, integrated entities in which different units, functions and levels support the company strategy - and one another" (59).

In the relatively new field of manufacturing strategy, which is the focus of this study, the emphasis on fit is evident. Skinner's (1969) pioneering work in the field emphasized that successful manufacturing strategy involves a process that requires

manufacturing to conform to tasks and priorities derived from competitive strategy. Wheelwright (1984) states that an effective manufacturing strategy is not necessarily one that promises the maximum efficiency, or engineering perfection, but rather one “that fits the business, that is, one that strives for consistency between its capabilities and policies and the business’ competitive advantage.”(83-84) Similarly, Swamidass (1986) defines manufacturing strategy as the development and deployment of manufacturing capabilities in total alignment with the firm’s goals and strategies.

These theoretical arguments for strategic agreement between levels in an organization are both widely accepted and understood by researchers in the field, and are logically compelling. But in actual practice, do managers at different levels of the organization agree on competitive priorities? Furthermore, what are the performance implications of goal co-alignment or of misalignment? When managers’ priorities are in line, is performance enhanced as the theory claims?

Studies of manufacturing strategy and performance are under-represented, according to researchers in the field. Indeed, in their review of the manufacturing strategy literature, Adam and Swamidass (1989) conclude that the “greatest weakness” of the field is insufficient research that studies relationships among variables, and particularly the effects of strategy on performance: “What is glaringly absent is a body of studies that would investigate the interrelationship among variables or the effect of a subset of variables on performance” (192).

The purpose of this study is to help fill this void in the manufacturing strategy literature. Specifically, this study focuses on the following research questions: Do matched pairs of manufacturing managers (MMs) and general managers (GMs) in the same organization agree on the competitive priorities of their manufacturing units? What is the relationship between MM-GM goal alignment and the performance of the manufacturing unit? That is, when GMs and MMs agree on strategic priorities, is performance enhanced as suggested by conventional wisdom in the field? What other organizational factors are associated with performance measures of the manufacturing unit?

## **LITERATURE REVIEW AND HYPOTHESES**

Since Skinner’s (1969) seminal article in manufacturing strategy, research in this area has emphasized the need for integrating decisions at the functional-level of strategy (manufacturing / operations) with the business strategy of a company (see Skinner 1969; Hayes and Wheelwright 1979). Embracing the notion of fit proposed by Skinner and refined by Hayes and Wheelwright (1984) among others, contemporary researchers have been working with an assumption that executives at different levels in an organization share the same set of priorities.

The assumption of shared priorities is supported by Schroeder, Anderson, and Cleveland (1986) but contradicted by other studies. In an exploratory study

involving thirty-nine manufacturing managers, Schroeder, Anderson, and Cleveland (1986) found that the mission of manufacturing was usually consistent with the business strategy. Based on the responses of manufacturing managers, the authors identified several different elements of manufacturing mission: quality and reliability, customer service, economic performance, flexibility, resource and equipment utilization, technology, organizational development, employee and community relations, and inventory control. They also constructed fifteen elements of business strategy that were combined into four groups: product, price, service, and operations. Their conclusion that the manufacturing mission was usually aligned with business strategy was based on two observations. First, about forty percent of manufacturing managers in the sample thought that the elements of business strategy were consistent among manufacturing, marketing, finance, and human resources. Second, open-ended data seemed to suggest a close match between the elements of manufacturing mission and the business strategies.

This conclusion is contrary to the literature which indicates that manufacturing is poorly understood, and missing from, or inconsistent with business strategy (cf., Skinner 1969; Hayes and Wheelwright 1979; Wheelwright 1978). Swamidass (1986) observed that executives at different levels in a company emphasized different priorities. Swamidass's study was conducted on thirty-five manufacturers in the machinery and machine tool industries. These were predominantly small-batch manufacturers located in the Pacific Northwest. Restricting the sample to a single industry in a confined geographic area helped control for differences due to manufacturing process, industry, and regional factors. The downside of this sampling approach, however, was the lack of generalizability of findings to other industries as well as other regions. Based on data collected for the study in 1982, the competitive priorities of the two levels of executives were elicited from the ranking of six single-item measures. An item was considered to be the "CEO's bias" if it was top-ranked more frequently by CEOs than MMs. Findings revealed the existence of a mismatch of manufacturing priorities between GMs (or CEOs) and MMs, raising the concern that decisions at the manufacturing and operations level could be undermining business strategy.

#### Are Manufacturing Priorities of GMs and MMs Co-Aligned?

Since the field of manufacturing strategy is relatively new and data for the Swamidass (1986) study were collected during an earlier stage of the field's development, it would be reasonable to expect that differences in priorities between the two levels of executives would have converged over time. In other words, as the field evolves and matures, and as research contributions are disseminated and organizational learning occurs, we expect more pairs of GMs and MMs to emphasize the same set of priorities. Also, since competitive priorities are dynamic in nature (Corbett and Wassenhove 1993), the biases of CEOs and MMs, if any, would have shifted over the years. Thus:

H1: GMs and MMs are more likely to agree than disagree on the competitive priorities of the manufacturing unit.

#### Performance Impact of Co-Alignment

Researchers have argued that a fit between a firm's strategies at the business and functional levels is expected to have a positive impact on performance (Hayes and Wheelwright 1984). Nath and Sudharshan (1994) found a monotonic relationship between coherence and performance in a specific industry: acute care hospitals. They measured coherence by examining a firm's overall business strategy and relating it to different functional area decisions. Day (1984) postulated that business strategy should be integrated with functional strategies to achieve a sustained competitive advantage. Thus:

H2: The alignment between manufacturing priorities of GMs and MMs has a positive impact on the performance of MMs.

#### Moderating Effects of Organizational Variables

When Swamidass (1986) observed differences in the manufacturing priorities of CEOs and MMs, he left the investigation of the causes for these differences to future researchers (482). The misalignment in the priorities emphasized by two different groups of executives may be due to several reasons, including a lack of communication between GMs and MMs. This communication gap is likely to lead to a lack of understanding on the part of executives. The lack of understanding is likely to be more pronounced as we go down the hierarchy in any organization structure, since executives at the higher levels (CEOs or GMs) are more likely to be a part of the strategy formulation process, and thus have a clearer understanding of the priorities of a company. It is, therefore, logical to investigate the characteristics of MMs, rather than GMs, that in turn may be the basis for MMs' perception of the manufacturing priorities of their respective Strategic Business Unit (SBUs). The communication gap may also be an outcome of the years of association between the two executives.

In the absence of proper communication from the top about the competitive priorities of the company, MMs would emphasize priorities that they consider appropriate from their perspective. The MMs' choice of priorities is likely to be influenced by their individual characteristics. This contention draws indirect support from the strategic management literature that has proposed and established a linkage between managerial characteristics and the strategic types at the upper echelons in organizations (Miles and Snow 1978; Thomas et al. 1991; Gupta and Govindrajana 1984). The following section highlights these characteristics and describes their relevance to the hypothesized alignment in the priorities emphasized by the two groups of executives.

### Job Tenure

The attraction-selection-attrition model (as presented by Schnieder 1987) suggests that when viewed over a long-term basis, the length of association between an individual and an organization (in terms of being attracted to an organization, being selected by an organization and being retained by an organization) will depend on person-organization fit, or how closely the person's thinking aligns with the organizational culture. In addition, the strategy literature supports the idea that a longer tenure allows managers to understand the politics and procedures of the organization (Hambrick and Mason 1984). So it seems logical to expect that manufacturing executives who have longer tenures on the job (i.e., "Job Tenure") are more likely to be aware of the priorities of the company and their GMs. Furthermore, we expect that longer job tenure will moderate the relationship between goal co-alignment and manufacturing performance since retaining one's job is an implicit indicator of job knowledge and satisfactory performance. Thus:

H3a: Job Tenure of MMs moderates the relationship between co-alignment and performance of MMs.

### Years of Association Between GMs and MMs

"Years of association" is a measure of the length of time the MM has been working with and reporting to the GM. "Job Tenure," as described above, indicates the length of time MMs have held their current positions. Higher job tenure does not necessarily correlate with higher years of association since the MM may have been working for another GM (e.g., the GM was recently hired). Logically, we would expect that the longer the two executives worked together in the same company, the more they would be aware of each other's priorities. In addition, we expect that higher years of association moderates the relationship between co-alignment and performance, since a long-term relationship between MMs and GMs may enter into the GM's perception of the MM's performance. Thus:

H3b: Years of association between GMs and MMs is likely to moderate the relationship between alignment and performance of MMs.

## METHODOLOGY

### Sample and Data Collection

The data for the study were collected from two levels of employees for each company. First, the Manufacturing Manager's survey, shown in the Appendix, was filled out by the Manufacturing Manager who was responsible for managing a

product line or the manufacturing function of this organization. The titles of MMs who responded to the surveys included Operations Manager, Director of Operations, and Manufacturing Manager. Second, the General Manager's Survey, also shown in the Appendix, was completed by the supervisor of the manufacturing manager who responded to the MM's survey. Thus, the term GM refers to a superior to whom the MM reports directly.

The unit of analysis for this study was a Strategic Business Unit. A stratified sample of 1350 companies in six different industries was identified, each based in the Mid-Atlantic region of the United States. A company was included in the sample if at least one of the following two criteria was met: (a) annual sales of \$100 million or more, (b) 50 or more employees. A preliminary sample of 158 companies agreed to participate. Two questionnaires (one for the MM and one for the GM) were sent to each participating unit. A total of 197 usable responses (99 GMs and 98 MMs) from 99 companies were received. Thus, once a firm agreed to participate, the response rate for GMs and MMs was 62.7% and 62%, respectively.

### Measurement of Variables

#### Manufacturing Priorities

MMs were asked to rate the importance of seventeen management priorities in manufacturing. These seventeen items were used to operationalize five competitive priorities, namely, Cost, Quality-of-Conformance, Quality-of-Design, Flexibility, and Delivery. Thirteen of the seventeen items on the MM Survey (Appendix) have been taken from Morrison and Roth 1993; Ritzman et al. 1993; Nemetz 1990; Wood et al. 1990; Roth and Miller 1990. The remaining four items were self-developed. MMs rated all items on a five-point Likert scale with values ranging from 1 (Not at All Important) to 5 (Extremely Important). The items in the questionnaire were arranged in a random order to elicit accurate information from respondents.

The manufacturing priorities emphasized by GMs were assessed using another set of seventeen items. Since the GMs view competitive priorities from the "competitiveness" perspective, and not as "competencies" as viewed by MMs (Corbett and Wassenhove 1993), the items on the GM survey were phrased differently. These items have been used for similar purposes by Ritzman et al. (1993), Roth and Miller (1990), and Nemetz (1990).

#### Alignment

First, the misalignment between the manufacturing priorities of GMs and MMs was calculated as an Euclidean distance measure. The Euclidean distance was calculated as a square root of the sum of squared differences on each of the five priorities. The alignment score for each pair of GMs and MMs was then calculated by subtracting their respective misalignment score from the maximum misalignment score among all matched pairs.

### Performance

“The appropriateness of the performance measure to use may depend on the circumstances unique to the study” (Swamidass and Newell 1987, 516). Regarding studies of manufacturing strategy, Swamidass and Newell (1987), among others, noted the difficulty of obtaining objective financial measures of performance from small business units, a majority in our sample. We, therefore, adopted managerial effectiveness as an outcome variable, as opposed to the company performance which mostly depends upon factors beyond the manufacturing manager’s control, such as market conditions, economic conditions, technological changes, and governmental policies (Pfeffer 1977; and Brown 1982; both in Yukl and Van Fleet 1992). The most commonly used measure of manager effectiveness is ‘group performance,’ which is defined as “the extent to which the leader’s group or organization performs its task successfully and attains its goals” (Yukl 1981, 5). Since the onus of achieving alignment in manufacturing priorities is on MMs (not GMs), it would be appropriate to use managerial effectiveness of MMs as the outcome variable.

Although it is desirable to use objective measures of performance, privately-held companies (a majority in our sample) are often reluctant to furnish objective performance data (Swamidass and Newell, 1987). We, therefore, adopted perceptual measures of managerial effectiveness from the organizational sciences’ literature. The perceived measures have been used and recommended as a substitute when objective measures are either not available or not relevant (Dess and Robinson, 1984; Venkatraman and Ramanujam, 1987). The superiors of manufacturing managers (i.e., the general managers) were asked to provide perceptual information on the performance of their respective manufacturing managers (MMs).

### Organizational Variables

Data on the organizational variables were collected from MMs. Tenure was operationalized by counting the number of years that the MM had served in the same position (Job Tenure). Years of Association between the GM and MM was measured by the number of years this MM has been reporting to the GM.

### Reliability and Validity of Scales

#### Manufacturing Priorities (MMs)

A factor analysis with oblimin rotation was conducted to confirm that the seventeen items in the MM survey loaded on the five factors. The oblimin rotation was used because the competitive priorities are not considered orthogonal to one another. In fact, a company may simultaneously place high emphasis on more than one priority in line with the thinking of Corbett and Wassenhove (1993),

Ferdows and De Meyer (1990), and Hill (1994). A unique factor loading of at least 0.45 was the criterion set for including an item in a factor. In earlier empirical studies done in this area researchers have used varying cut-off points (Nemetz 1990; Wood et al. 1990).

The Cost and Quality-of-Conformance scales retained all the items, and the Flexibility scale retained four of the five items. One item, 'Customizing product to customer specifications,' originally intended to measure the emphasis on Flexibility, did not load on this factor. For the Delivery scale, one item ('Making fast deliveries') was dropped due to a low factor loading. [See Table 1.]

Next, the Cronbach alpha coefficients for the competitive priority scales based on manufacturing managers' responses were computed. The original alphas for the Cost, Quality-of-Conformance, Flexibility, and Delivery scales are certainly above the lower limits of acceptability, generally considered to be around 0.60 (Nunnally 1978). For the Quality-of-Design scale, the alpha is 0.46. In the marketing literature, Anderson and Coughlan (1987) suggest that if only two items are used in scale creation then an alpha value of 0.53 is acceptable. In the present study, since the alphas for the revised scales were not significantly different from those of the original scales, the original scales were used for subsequent analyses. [See Table 2.]

#### Manufacturing Priorities (GMs)

A factor analysis confirmed the existence of five competitive priorities used by GMs to compete in an industry. [See Table 3] All items loaded on five factors as expected, except items G8 - Dependable delivery promises, and G10 - Delivery on due date. These two items had dual loading on two factors: Factor 1 (Quality-of-Conformance) and Factor 2 (Delivery). The items were expected to load on Factor 2 and also yielded higher loading on Factor 2 (0.635 and 0.633, respectively) compared to Factor 1 (0.502 and 0.486, respectively). Therefore, the two items (G8 and G10) along with G6 and G13 were used to measure Delivery as originally proposed. Since all other items loaded on the five factors as expected, we decided to use the original scales. The Cronbach alpha coefficients, measures of internal consistency of the scales, were above 0.60 for the Flexibility, Quality-of-Conformance, Quality-of-Design, and Delivery scales [see Table 4]. The final factor, Cost, is comprised of two-items, with a corresponding coefficient of only 0.39. The cost factor, however, met the minimum eigen value criterion and explained a variance of seven percent. The total variance explained by the five factors was sixty three percent.



**TABLE 1**  
Rotated Factor Pattern for  
Competitive Priorities Based on Manufacturing Managers' Response

Item	Factor 1 Flexibility	Factor 2 Cost	Factor 3 Quality-of- Conformance	Factor 4 Quality-of- Design	Factor 5 Delivery
M6	.72975				
M4	.65380				
M2	.62112				
M17	.48867			.46446	
M7	.48597				
M3		.78431			
M9		.78402			
M1		.75598			
M8			-.81315		
M10			-.64877		
M12			-.62676		
M16				.87637	
M13				.77092	
M15					.79533
M11					.71522
M14					.59131
Variance Explained	0.28	0.13	0.11	0.07	0.06

NOTE: Loadings below 0.45 are not printed.  
For description of items, see Appendix.

**TABLE 2**  
Internal Consistency for  
Competitive Priority Scales Based on Manufacturing Managers' Responses

Variable	<u>Cronbach's Alpha Coefficients</u>	
	Original Scale	Revised Scale After Factor Analysis
Cost (3 items)	.7035	.7035
Flexibility	.6577 (5 items)	.6594 (4 items)
Quality-of-Conformance (3 items)	.7386	.7386
Quality-of-Design	.4661 (3 items)	.8221 (2 items)
Delivery (3 items)	.6065	.6141

- NOTE:
- (i) Flexibility scale had five items originally, but one item loaded on Quality-of-Design.
  - (ii) Quality-of-Design scale had three items originally, but two items were dropped based on Factor Analysis.
  - (iii) For Delivery scale, one item got dropped and another (originally intended to measure Quality-of-Design) was added.

**TABLE 3**  
 Rotated Factor Pattern for  
 Competitive Priorities Based on General Managers' Response

Item	Factor 1 Quality-of- Conformance	Factor 2 Delivery	Factor 3 Flexibility	Factor 4 Quality-of- Design	Factor 5 Cost
G9	.85264				
G7	.75467				
G16	.48027				
G13		.85681			
G6		.85340			
G8	.50262	.63522			
G10	.48639	.63347			
G15			.82203		
G17			.81575		
G14			.55485		
G12			.55133		
G4				-.72709	
G11				-.70653	
G2				-.57441	
G3				-.57003	
G5					.82885
G1					.58025
Variance Explained	0.22	0.13	0.13	0.08	0.07

NOTE: Loadings below 0.45 are not printed.  
 For description of items, see Appendix



**TABLE 4**  
Internal Consistency for  
Competitive Priority Scales Based on General Managers' Response

Variable	Cronbach's Alpha Coefficients (Original Scale)*
Cost (2 items)	.3906
Flexibility (4 items)	.7407
Quality-of-Conformance (3 items)	.6136
Quality-of-Design (4 items)	.6715
Delivery (4 items)	.7826

NOTE: N=99

\* The alphas for the revised scales were not computed since all items, except G8 and G10, loaded on five factors as expected. Given their higher loading on Factor 2 (Delivery), they were retained in that scale as originally proposed.

#### Managerial Effectiveness

The effectiveness of manufacturing managers was measured based on the perception of their superiors on a total of seven items (see Appendix). The superiors were first asked to judge the relevance of each item for evaluating the performance of the subordinate, and then rate the performance on a seven-point scale ranging from "Unsatisfactory" to "Excellent." The first three items, Accuracy of work, Quality of work, and Productivity of the group, are taken from the performance rating scale of Touliatos, Bedian, Mossholder, and Barkman (1984). Four additional items, Timeliness in meeting delivery schedules, Quantity of work, Customer satisfaction, and Operating efficiency, were taken from a primer on 'performance appraisal and review systems' by Carroll and Schneier (1982).

The averaged responses to the relevant items only were used as the measure of managerial effectiveness. Due to the need to eliminate certain items based on irrelevancy, it was not feasible to compute Cronbach's alpha for this scale. For the same reason, the factor analysis to assess the validity of this scale could also not be conducted. Nonetheless, the convergent validity of the effectiveness measure (Average Performance Rating) was tested using its intercorrelation coefficient with an independent assessment Overall Performance ( $r = .74, p < .01$ ), a single item

measure. A similar approach has been used by Govindrajan (1988) to test for the convergent validity of an effectiveness measure.

## RESULTS

### Are Manufacturing Priorities of GMs and MMs Co-aligned?

This study examines three issues, tested in the form of various hypotheses. The first issue deals with the co-alignment in thinking of MMs and GMs, as stated in Hypothesis 1. The second issue analyzes the impact of alignment on the perceived performance of MMs. Thirdly, the moderating role of organizational factors on the relationship between alignment and performance is examined (Hypotheses 3a and 3b). The intent of Hypothesis 1 was to test the level of agreement, using t-tests, between matched pairs of MMs and GMs for each of the five competitive priorities. Since the publication of Swamidass's (1986) study more than a decade ago, manufacturing strategy has become a topic of increasing interest among top managers. For this reason we expected to find greater agreement among MMs and GMs. The results of this hypothesis are listed in Table 5.

**TABLE 5**  
Difference in GMs' and MMs' Perceptions of Competitive Priorities

Priority	Difference (MM's Score-GM's Score)			Significance		
	Mean	Std. Dev.	Min	Max	t	p-value*
QC	-.21	.71	-1.67	1.67	-2.92	<.001
QD	.72	.94	-1.42	3.33	7.58	<.0001
DEL	-.29	.75	-2.17	1.67	-3.83	<.001
FLEX	1.02	1.08	-1.25	3.10	9.34	<.0001
COST	1.29	1.01	-2.00	3.50	12.64	<.0001

NOTE: A negative sign (direction of the difference) indicates that GMs, on average, place a higher emphasis on that priority than the MMs.

\* All p-values are one-tailed.

#### LEGEND:

QC: Quality-of-Conformance

QD: Quality-of-Design / performance

DEL: Delivery (includes both delivery speed and delivery reliability)

These results suggest that GMs and MMs differ substantially with respect to all five competitive priorities. Thus, Hypothesis 1 is not supported, and we find that MMs and GMs still do not generally agree on competitive priorities. This lack of agreement is an interesting finding and raises several questions. For instance, which priorities are emphasized more by MMs? By GMs? When GMs and MMs disagree on priorities, to what can we attribute those differences? To gain insight into these questions, we further examined the data to learn more about the different emphases of GMs and MMs. The findings are provided in Table 6.

**TABLE 6**  
Frequency Analyses of the Mean Differences  
in Emphasis Placed by GMs and MMs on Competitive Priorities

Priority	Emphasis Placed by MMs vs. GMs		
	Equal Emphasis (%)	Higher than GMs (%)	Lower than GMs (%)
QC	26	26	48
QD	01	81	18
DEL	08	32	60
FLEX	01	80	19
COST	01	90	09

**LEGEND:**

QC: Quality-of-Conformance

QD: Quality-of-Design

DEL: Delivery (a combination of delivery speed and delivery reliability)

FLEX: Flexibility

This table shows a clear distinction in the competitive priorities of GMs and MMs. Specifically, more than 80% of the MMs place greater emphasis than the GMs on the three competitive priorities of Quality-of-Design, Flexibility and Cost. In contrast, GMs tend to emphasize the remaining two priorities: Quality-of-Conformance and Delivery. Interestingly, each of the three MM priorities (Quality-of-Design, Flexibility and Cost), is inward-looking or focused on internal aspects of manufacturing. Perhaps MMs stress these factors because they feel better equipped to monitor and control them. On the other hand, GMs are, by virtue of their position, required to monitor competitors and the demands of customers and, hence, are more prone to emphasize priorities that are outward-looking or related to external factors. That is, we find that GMs are much more

likely to stress meeting the demands of customers for Quality-of-Conformance and fulfilling promises about delivery, in terms of both the speed and the reliability of delivery. Further discussion of these findings is provided in the conclusion discussion.

#### Performance Impact of Co-alignment and Moderating Effects of Organizational Variables

Hypothesis 2 tested whether co-alignment is significantly related to the performance evaluations of MMs. Hypotheses 3a and 3b raise the possibility that the relationship between performance and co-alignment may be moderated by organizational variables. Results of these hypotheses are listed in Table 7.

**TABLE 7**  
Stepwise Regression Results Using Performance As A Dependent Variable

Independent Variables	Step 1			Step 2			Step 3		
	$\beta$	t	P	$\beta$	t	p	$\beta$	t	p
Alignment	0.07	0.64	0.26	0.02	0.24	0.40	0.29	1.64	0.05
Job Tenure				-0.03	-0.28	0.38	0.23	0.47	0.31
Years of Association				0.36	3.23	0.01	0.94	1.83	0.04
Alignment * Job Tenure							-0.32	-0.66	0.25
Alignment * Years of Association							-0.62	-1.14	0.12
R <sup>2</sup>	0.004			0.13			0.16		
Adjusted R <sup>2</sup>				0.09			0.11		
$\Delta R^2$				0.01			0.04		
F value for the step				4.11			3.17		
p – value for the step				0.01			0.01		
Degrees of Freedom for the step	88			86			84		

Note: All p-values are one-tailed.

These results suggest some very interesting findings. While the direct effect of alignment on performance is absent (please refer to step 1, Table 7), the overall model yields significant results (see step 3 of the table). Each step of the regression process indicates improvement over the previous step (please compare F and p values for each step in Table 7); thus, step 3 is used for the final interpretations of the results.

The interpretation of regression coefficients of independent variables in the presence of interaction effects (step 3) is different than the interpretation of these

same coefficients in the main effects model (step 2). Jaccard, Turrisi and Van (1990) state that the following interpretation is appropriate:

. . . . In the two-term 'main effects only' model, a regression coefficient estimates the effects of the independent variables on the dependent variable, across the levels of other independent variables:  $b_1$  reflects the trends of changes in  $Y$  with changes in  $X_1$  at each level of  $X_2$  ... In contrast, in the model with multiplicative terms, the regression coefficient for  $X_1$  and  $X_2$  reflect conditional relationships:  $b_1$  reflects the influence of  $X_1$  on  $Y$  when  $X_2$  equals zero. . . . (26-27).

Based on this argument the following interpretations can be made. First, the "main effect" of co-alignment on MM performance is absent. In other words, alignment or agreement between MMs and GMs regarding the manufacturing priorities does not have any significant impact on the performance evaluation of the MM (based on step 1). This statement, however, is modified based on step 3. Following the Jaccard et al. (1990) interpretation, it is inferred that when years of association and job tenure are zero, the alignment of MM and GM priorities is positively related to performance. Thus, there is a conditional support for Hypothesis 2. Alignment is important when the MMs are new to the job and when they have not developed a working relationship with their GMs. However, after building a relationship with the GM over a period of years of association, and after being on the job for an extended period, alignment does not relate to performance ratings of the MM.

With regard to Hypotheses 3a and 3b, Jaccard et al. (1990) suggest that we need to look at both the strength and nature of the interaction. It is evident from step 3 of Table 7 that the interaction terms increase the adjusted  $R^2$  significantly from 0.09 to 0.11 (a 22.2% increase), indicating that an additional 2% of variance is explained by the presence of the interaction terms. Thus, we find a significant moderating effect in terms of the organizational factors of job tenure and years of association. However, since neither of the interaction terms is significant individually, we cannot provide any insights into the nature of this moderating effect. Thus, Hypotheses 3a and 3b are partially supported.

## CONCLUSIONS AND IMPLICATIONS

This study attempted to address three issues. The first was to understand if matched pairs of GMs and MMs agree on competitive priorities in the area of manufacturing. If not, we wanted to know what priorities are emphasized more by GMs? By MMs? The second issue was to assess the impact of alignment on the perceived performance of MMs. The third issue was to examine what moderating effect, if any, organizational variables have on the relationship between alignment



and performance. Based on a sample of firms from several industries, the study unraveled some interesting findings. It was clearly demonstrated that differences between GMs and MMs regarding the competitive priorities of their units are still prevalent, as initially observed in a single-industry study by Swamidass (1986). Given the tenet of strategic management that suggests that for a firm to be successful, its functional strategies must be in sync with its business (competitive) strategies, these results might be a cause for some concern.

The second issue provides some interesting insights into the relationship between GM-MM co-alignment and the performance ratings of MMs. First, when the years of association between the managers and job tenure of the MM are zero, there is a significant positive relationship between performance and alignment. Under these conditions, MMs who align their competitive priorities with their GM are more favorably evaluated. This has very strong implications with regard to the performance of a new MM. New MMs are evaluated, in part, on the strength of whether they agree with the manufacturing priorities of the GM.

On the other hand, these findings suggest that managers who have known the GM for a long time are evaluated on performance criteria other than goal co-alignment. Agreeing with the GM on competitive priorities is not related to performance evaluations under these circumstances. Performance evaluations in this case do not follow a strict strategic fit model. Perhaps a political model (who you know rather than what you know) is at work.

To conclude, three interesting findings emerge. First, differences in competitive priorities still do exist between matched pairs of MMs and GMs. In this sense, this study is an extension of the study reported by Swamidass (1986). While Swamidass's study was based on a single industry, our sample includes matched pairs of GMs and MMs from six different industries, and thus is more generalizable. A second finding is that, as reported in Table 6, GMs tend to stress outward-looking competitive priorities while MMs are more internally-focused. This indicates that these differences between GMs and MMs can be explained in part by their differing responsibilities and perspectives. That is, with respect to manufacturing strategy, GMs are inclined to emphasize externally-focused priorities such as meeting customer demands and competitive challenges. MMs see manufacturing priorities as more internally-focused, on cost control and manufacturing flexibility, for example. These perspectives are understandable given the differing responsibilities of the two levels of management. Nevertheless, the differences suggest the need to develop new and better ways to communicate so that competitive priorities are understood uniformly across all managerial levels.

Finally, the findings related to performance seem to suggest different models operating under different circumstances. The “strategic fit model” is evident when MMs lack job tenure and a long association with the GM. This changes, however, when the MM is known to the GM. It is our contention that under these circumstances, GMs seem to apply a different set of performance criteria, perhaps using a “political model.” This interpretation of a political model, however, needs further analysis to be definitive. Future research could study the criteria used to evaluate the performance of MMs, the model under which these evaluations are conducted, and the effects of these on SBU-level performance.

The implications of this study are relevant to both researchers and managers. The results invite other researchers to examine in detail the causes of differences between GMs and MMs, as well as the performance implications of these differences. Future research may also examine other organizational variables such as the reward system and culture, as well as environmental conditions faced by the firm. Notwithstanding some of the limitations of this paper, it provides interesting insights into the manufacturing priorities of GMs and MMs. For managers, findings highlight the importance of an explicit discussion between GMs and MMs to evaluate, fine tune, revise, and reconsider the manufacturing priorities emphasized by the firm. Identifying and resolving any differences in a timely manner will help to align operations-related decisions with the business strategy of a company. Furthermore, these findings suggest the need for GMs to consciously examine the criteria they use to evaluate the performance of MMs and to determine whether differing sets of criteria are being employed.

## Appendix

**I. Manufacturing Manager's Survey**

Priorities were measured by the importance given to each item in a manufacturing unit. (Not at all ---to--- Extremely important)

**Cost**

- M1. Controlling production costs
- M3. Improving labor productivity
- M9. Running equipment at peak efficiency

**Flexibility**

- M4. Introducing new designs or new products into production quickly
- M6. Adjusting capacity rapidly within a short period
- M7. Handling variations in customer delivery schedule
- M2. Handling changes in the product mix quickly
- M16. Customizing product to customer specifications

**Quality-of-Conformance**

- M8. Ensuring conformance of final product to design specifications
- M10. Ensuring accuracy in manufacturing
- M12. Ensuring consistency in manufacturing

**Quality-of-Design**

- M5. Manufacturing durable and reliable products
- M13. Making design changes in the product as desired by customer
- M15. Meeting and exceeding customer needs and preferences

**Dependability**

- M14. Reducing manufacturing lead-time
- M11. Meeting delivery dates
- M17. Making fast deliveries

**II. General Manager's Survey****Competitive Priorities**

Measured by the importance given to each item for competing in an industry. (Not at all ---to---Extremely Important)

**Cost**

- G1. Low price
- G5. A standard, no-frills product

**Flexibility**

- G12. Frequent design changes or new product introductions
- G14. Product variety
- G15. Rapid volume changes
- G17. Speed in product changeover

**Quality-of-Conformance**

- G7. Consistent quality
- G9. Conformance to product specifications
- G16. Accuracy in manufacturing

**Quality-of-Design**

- G2. High product performance
- G3. Customized product
- G4. Large number of product features or options
- G11. High durability (long life) of product

**Delivery**

- G6. Short delivery time
- G8. Dependable delivery promises
- G10. Delivery on due date (ship on time)
- G13. Fast delivery

**III. Managerial Effectiveness**

1. Performance of the subordinate (1-Unsatisfactory --to-- 7-Excellent) rated on the relevant items.

<b>Item</b>	<b>Relevant</b>	<b>Rating</b>
	Yes/No	(Unsatisfactory) 1 2 3 4 5 6 7 (Excellent)
Accuracy of work		
Quality of work		
Productivity of the group		
Customer satisfaction		
Operating efficiency		
Quantity of work		
Timeliness in meeting		
Delivery schedules		
Overall performance of the group managed by this manager		

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## **Executive/Board Politics in Strategic Decision Making**

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### **Abstract**

Corporate governance should benefit from increasing board involvement in the strategic decision process (SDP). Political behaviors in the SDP are studied using 140 senior officers in 17 art, cultural, and historical organizations in the northeast sector of the United States. Examined is a set of relationships between politics (i.e., collaborative or competitive behaviors) in five phases of the SDP (issue identification, alternative development, alternative evaluation and choice, implementation, and evaluation of results) and six outcome measures (quality, speed, goal achievement, average working capital, average working capital ratio, and unrestricted funds). Quality and speed are strongly related to collaborative politics; goal achievement and unrestricted funds are weakly associated with collaborative politics. There are no relationships between politics and either working capital measure.

### **INTRODUCTION**

Events of the 1970s and challenges of the 1980s have forced changes in the composition and functioning of boards of directors (Lorsch and MacIver 1989; Loudon 1982; Zahra and Pearce 1989). Increasingly, public initiatives for board reforms are focusing on modifying how boards work, in particular, suggesting that corporate governance should be strengthened by more active board involvement in strategic decision processes (Judge and Zeithaml 1992). The strategic decision process is used in the present study to reflect an important set of activities and decisions that shape the direction of an organization and is typified by newness, complexity, and uncertainty (Mintzberg, Raisinghani, and Theoret 1976). The SDP domain covers such areas as: establishing and updating mission, objectives, and policies; venturing into and/or discontinuing programs, services, products, or markets; acquiring or divesting businesses; competing in chosen markets; and structuring the organization.

The SDP is multi-phased, encompassing the tasks of: identifying external and internal issues as strategic; generating alternative responses; evaluating alternatives and choosing actions; committing organizational resources; and evaluating the results and consequences (Fredrickson and Mitchell 1984; Shrivastava 1983).



## THEORETICAL FRAMEWORK

There is little systematic research either investigating how boards participate in the SDP, or supporting contentions that board involvement is associated with more positive organizational outcomes. This study examines board involvement in the strategic decision process from the perspective of political strategic decision making theory. This orientation is based on diversity in interests and goals, and emphasizes that organizations are not uniform entities, but rather collections of individuals and sub-units that have their own goals, decision criteria, and agendas. Decisions are the results of processes in which decision-makers with different goals use conscious efforts to overcome opposition (Eisenhardt and Zbaracki 1992; Fahey and Narayanan 1983; Miles 1980; Pfeffer 1981, 1992). Politics are defined as activities or behaviors through which organizational events are affected (Pfeffer 1981; Tushman, 1977; Wamsley and Zald 1973). While both published research and most people's organizational experiences recognize the reality of the political perspective, (Eisenhardt and Zbaracki 1992; Madison, Allen, Porter, Renwick, and Mayes 1983) little work has used this perspective to provide interpretations and predictions for understanding board behavior.

The research question guiding this study is: "how do politics at the board/executive level affect outcomes of the strategic decision process?" One view is that politics restrict information and waste time, thereby contributing to less successful outcomes (Eisenhardt and Bourgeois 1988). On the other hand, when political behaviors are open and there is information sharing, participants in the strategic decision process may be more supportive. This may result in more successful outcomes (Gray 1989).

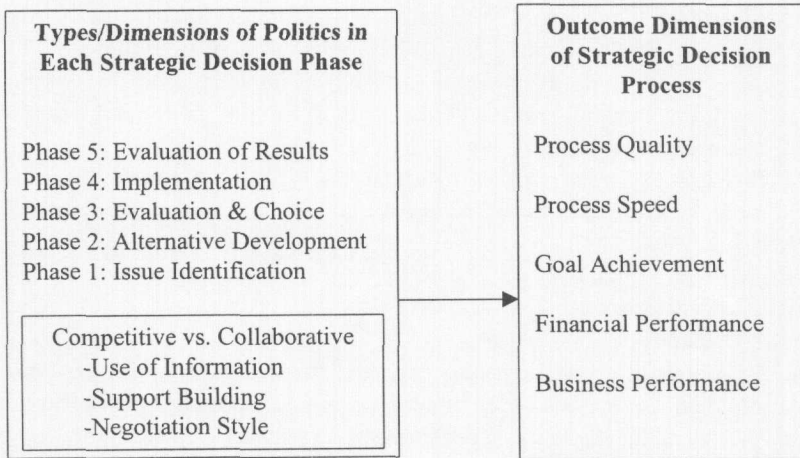
Politics represent a complex set of behaviors that previous studies have attempted to identify. Some of the dimensions examined in prior work are: use of information, support building, negotiation style, communication techniques, supervisor behavior, coworker behavior, and organizational policies and procedures (Allen, Madison, Porter, Renwick, and Mayes 1983; Eisenhardt and Bourgeois 1988; Ferris and Kacmar 1992; Kumar and Ghadially 1989; Pfeffer 1981, 1992). Because the focus of the present research is on board involvement in the strategic decision process, the dimensions used to conceptualize politics are focused on decision-making: use of information, support building, and negotiation style (Vredenburg and Maurer 1984).

The political/power perspective suggests that politics can be expressed in two ways: competitive and collaborative (Baum 1989; Frost 1987; MacMillan and Jones 1986). Competitive political behaviors correspond to traditional politics, the politics of win-lose competition, self-interest, and unsanctioned means and ends (Allen et al. 1983; Baum, 1989; Eisenhardt and Bourgeois 1988; Gandz and Murray 1983; Mayes and Allen 1983; Pfeffer 1981). Collaborative political activities begin with the assumption that people will continue to support each other despite conflicts. Interests are asserted vigorously but securely, openly, and with win-win competition (Baum 1989). Recent research provides support for different types of politics (Voyer 1994).

The political perspective suggests that politics impact clusters of organizational outcome dimensions. In this study, organizational dimensions are quality of the strategic decision process, the speed or pace of the process, goal achievement, financial performance, and business performance (Hart 1992; Judge and Miller 1991; Mintzberg et al. 1976; Nutt 1993; Schwenk 1990; Wally and Baum 1994). Quality is used to mean the overall level of excellence in formulating, implementing, and evaluating strategic decisions (Reeves and Bednor 1994). Speed is an evaluation of the length of time it takes to go through the phases of the strategic decision process (Mintzberg 1978). Goal achievement is the accomplishment of organizational goals that represent sociocultural issues (Etzioni 1961). Financial performance is based on accounting measures, and business performance is based on market measures indicating growth in market position (Hart 1992; Venkatraman and Ramanujam 1986).

The research model guiding this study is depicted in Figure 1. The model posits that outcomes of the strategic decision process are influenced by political behaviors in each of the five phases of the SDP.

**Figure 1**  
Model Of Board/Executive Politics and Strategic Decision Process Outcomes



The political perspective predicts that collaborative politics at the board/executive level, in each phase, will be positively associated with outcomes of the SDP. Boards need to be joint partners with executives if the organization is going to respond effectively to external pressures. This suggests the following hypothesis:

***Collaborative politics at the board/executive level, in each phase of the strategic decision process, is positively associated with outcomes of the strategic decision process.***

## METHODOLOGY

### Sample and Procedure

Politics between board members and executive directors in the SDP are studied using 140 senior officers in 17 arts, cultural, and historical organizations in the northeast sector of the United States. This study was a correlational, cross-sectional field study, based primarily on responses to a questionnaire. Data were also collected from several archival sources: IRS 990 forms, Annual Reports, Pennsylvania Bureau of Charitable Organizations forms (BCO 100 and BCO 23), and two organizational self-report forms designed for this study.

The pertinent characteristics of the 17 organizations are provided in Table 1. Organizational age is calculated as the difference between 1995 and the date of incorporation. The ages range from 168 years to 6 years and the average age is 34.4 years. Organizational size is measured using a modified classification from Wade (1990), based on 1994 income.

Structured phone interviews were also conducted to enrich the findings. The phone interviews were based on a questionnaire asking about the research question and formulated around the statistical results of this study. Using a variety of methods helped counter common method variance.

The statistics of sent versus returned by organization and by organizational position are given in Table 2. Although the organizational sample (17) was small, the individual response rates were relatively high - executive directors (82%), board of directors (33%), staff (44%), and overall (36%).

### Measuring the Variables

A scale for the politics construct was designed for this study since previous scales focused on individual dimensions. Participants were asked about political behavior at the board/executive level in their own organizations. Each of the three dimensions (information usage, support building, and negotiation style) was captured by three items in each of the five phases of the strategic decision process, for a total of 45 questions. Scores were also calculated for each phase and one overall politics score (total of 51). Participants were asked to respond using a scale from five (collaborative politics) to one (competitive politics).

**TABLE 1**  
 Characteristics of Participating Organizations

Organization Number	Organization Age (in years) <sup>a</sup>	Organization Revenue <sup>b</sup>	Questionnaires Sent	Questionnaires Returned
014	102	3	33	9
034	20	0	19	4
035	61	0	15	6
037	24	0	14	13 <sup>c</sup>
049	13	0	22	4
062	11	1	29	8
072	7	0	9	2
086	31	3	21	8
097	25	2	29	12
129	9	1	16	9
145	16	1	20	9
157	32	1	23	7 <sup>c</sup>
163	168	3	42	21
180	21	0	20	4
181	21	1	23	5
207	6	0	9	4
212	17	3	40	19
Total:			384	144 <sup>c</sup> 38% <sup>c</sup>

<sup>a</sup> Age was calculated as 1995 minus the year of incorporation.

<sup>b</sup> Based on income reported in 1994 classified as:

5 = \$50 million +

4 = \$49 - \$10 million

3 = \$9 - \$1 million

2 = \$999 - \$500 thousand

1 = \$499 - \$100 thousand

0 = less than \$99 thousand (Wade 1990)

<sup>c</sup> 140 surveys were useable (two unusable from organization 035 and two from 157).

**TABLE 2**  
Individual Survey Responses by Organizational Position

Organization Number	Executive Director		Board of Directors		Staff	
	Sent	Received	Sent	Received	Sent	Received
014	1	0	27	8	5	1
034	1	0	17	4	1	0
035	1	0	13	5	1	1
037	1	1	13	10	0	0
049	1	1	21	3	0	0
062	1	1	27	7	1	0
072	1	1	8	1	0	0
086	1	1	15	3	5	4
097	1	1	27	11	1	0
129	1	1	14	7	1	1
145	1	1	17	8	2	0
157	1	1	20	4	2	0
163	1	1	39	19	2	1
180	1	1	18	3	1	0
181	1	1	16	1	6	3
207	1	1	7	2	1	1
212	1	1	36	16	3	2
*Totals:						
Sent:	17		335		32	
Received:		14 (82%)		112 (33%)		14 (44%)
*Total sent: 384. Total received: 140 (36%).						

Principal axis factor analysis was done within each phase on the total sample of 140 individuals. An oblique rotation method, oblimin, was used because there was no theoretical or intuitive reason to believe that the latent constructs represent uncorrelated factors. Factors were interpreted based on the pattern matrix factor loadings (Dillon and Goldstein 1984).

Using results from the Cronbach's reliability analyses and the factor analyses, ill-fitting items and dimensions were combined or dropped (Dean and Sharfman 1996). This resulted in a more parsimonious and reliable set of items and dimensions, which are delineated in Table 3, with Cronbach's reliability coefficients shown in Table 4.

**TABLE 3**  
Dimensions and Items by Phases for Politics Construct

Phases	Information Usage Questions	Dimensions		
		Support Building Questions	Negotiation Style Questions	No Dimension
1 Issue Identification	# 3*, 4*, 9*	no items	# 7, 8	
2 Alternative Generation	no items	#1*, 3*, 5*, 7*	# 2, 8, 9	
3 Alternative Evaluation And Decision	no items	no items	no items	#1, 2*, 3*, 5*, 8, 9
4 Implementation	#1, 5, 6, 7, 8, 9	#2*, 3*, 4*	no items	
5 Evaluation of Results	# 2, 6, 8	# 3, 4, 7	# 1, 5, 9*	

\*Reverse coded items

**TABLE 4**  
Politics Construct Reliability Results

	Cronbach's Alphas
Overall Politics (36 items)	.93
Phase 1 - Issue Identification (5 items)	.62
Information Usage, Phase 1 (3 items)	.62
Negotiation Style, Phase 1 (2 items)	.66
Phase 2 - Alternative Generation (7 items)	.65
Support Building, Phase 2 (4 items)	.63
Negotiation Style, Phase 2 (3 items)	.57
Phase 3 - Alternative Evaluation and Decision (6 items)	.77
Phase 4 - Implementation (9 items)	.79
Information Usage, Phase 4 (6 items)	.85
Support Building, Phase 4 (3 items)	.66
Phase 5 - Evaluation of Results (9 items)	.87
Information Usage, Phase 5 (3 items)	.75
Support Building, Phase 5 (3 items)	.67
Negotiation Style, Phase 5 (3 items)	.70

Based on the revised dimensions, the politics construct was measured by aggregating the responses of individuals in the same organization to produce organization scores. Four politics scores were calculated:

**ITEM POLITICS:** an organizational score on each of the questions, calculated by adding each respondent's score for each question and dividing by the number of respondents for the organization.

**DIMENSION POLITICS:** an organizational score on dimensions in the phases of the SDP, calculated by averaging the individual scores on the questions intended to measure the dimension, adding all these individual scores, and dividing by the number of organizational respondents. For example, to calculate the organizational dimension of use of information in the first phase of the SDP, the individual scores on questions 3, 4, and 9 were averaged. The individual dimension scores were added and averaged across the organization.

**PHASE POLITICS:** an organizational politics score for each of the five phases of the strategic decision process, calculated by taking the average of all the individual scores in the respective phase by organization.

**TOTAL POLITICS:** a single organizational average score that represented the overall politics in an organization's strategic decision process.

Process quality was assessed by a six item semantic scale, anchored from "5" to "1." High scores indicated a high quality strategic decision process. The six items were averaged and used as a single measure of quality for each individual respondent. The alpha was .91 and a principal-axis factor analysis yielded one factor, eigenvalue = 4.13 (68.8% of accounted variation). The individual scores were averaged within the organization for an overall organizational score.

Process speed was measured on the questionnaire, and was a subjective evaluation of overall impressions about the pace of the decision process. Speed was measured on a semantic scale consisting of four pairs of evaluative adjectives about the pace of the SDP. Respondents circled a number between each adjective pair ranging from a high of 5 to a low of 1 to describe how they felt about the speed of the strategic decision process in their organizations. The four items were averaged across the individual respondents. The reliability coefficient based on the individual scores was .88 and the factor analysis supported one factor (eigenvalue, 2.95, 73.6 % of variation). The individual scores within the organization were averaged to obtain an organizational score.

Goal achievement was assessed in two steps. Participants were asked to list important non-economic goals that the organization had set. Then, they were asked to assess the progress towards achieving those goals by rating them on a 5-point Likert scale. The response anchors ranged from "5" = progressing extremely well, to "1" = hardly any or no progress. The mean of the items was used as a measure of goal achievement (alpha = .66). The individual scores within each organization were averaged to obtain an organizational score.



Financial performance was assessed with two variables: average working capital and average working capital ratio. Secondary data was available on 15 of the 17 organizations in the sample. A three year (1994, 1993, and 1992) average working capital measure and average working capital ratio were calculated.

Business performance was calculated using unrestricted funds as a percentage of total funds. It was coded as "0" = no, or insufficient data; "1" as a negative trend; and "2" as a positive trend.

Control variables included were organizational size and organizational age. As organizational size increases, complexity in organization functions and structures also increases (Quinn and Cameron 1983). Complexity makes it more difficult for board members to have sufficient knowledge to challenge and/or formulate actions within the strategic decision process (Zald 1969). Organization size is measured by coding organizations on the basis of an annual income index (Wade 1990). Organizational age is an important variable. Looking at the functioning of boards over long periods of time would show an ebb and flow of board functions, importance, and power during the different phases of organizational development and activity (Zald 1969). This is consistent with the organizational life cycles theories of Greiner (1972), and Tushman and Romanelli (1985). Research into board behavior of nonprofit organizations suggests as organizational age increases, the board becomes progressively less interested in the organization's mission and programs and more involved in the bureaucracy and the reputation of the organization (Wood 1992). Consequently, the age of the organization should be negatively associated with a successful strategic decision process. This variable is measured by subtracting the date of incorporation obtained from tax and/or organizational records from 1995.

#### Data Analyses

Bivariate intercorrelations of the major study variables were calculated for an overall picture of the data. Partial correlations (controlling for organizational size and organizational age) were computed to test the hypothesis that there is a positive relationship between politics and outcomes of the strategic decision process. Partial correlations were computed between the 36 single items of politics, the nine dimensions, the five phase composite measures of politics, and the single overall measure of politics, and the five outcome dimensions.

Both Pearson's correlations and Kendall's tau correlations (a nonparametric measure of association for ordinal variables) were computed. Since the values of the correlations obtained from these two techniques produced similar results, Pearson's correlations were reported.

Hierarchical multiple regression was done to: a) assess the overall model effects on each dependent variable, while controlling for organizational size and age, and b) reinforce the results obtained from the partial correlations. Hierarchical multiple

regression allows for the assessment of the unique contribution of a set of variables in explaining variation in dependent variables (Cohen and Cohen 1983). The change in  $R^2$  at each step reflects the explanatory power of the variables included in that step.

## RESULTS

Total politics were mostly collaborative (mean = 4.03). Politics in each phase were also mostly collaborative (means: Phase 1 = 3.86; Phase 2 = 4.14; Phase 3 = 3.87; Phase 4 = 4.12; and Phase 5 = 4.16). The strategic decision process was of mostly high quality (mean = 4.05) and of average speed (mean = 3.33). There was moderate progress towards goal achievement (mean = 3.40). Average working capital and average working capital ratio were very high, but there was a very wide range in values. The maximum average working capital was \$2,191,626, while the minimum was \$ -1,649,920. The maximum average working capital ratio was 209,220.2 while the minimum was .22. The unrestricted funds ratio, was generally negative (mean = 1.29).

Table 5 presents the bivariate intercorrelations of the major study variables. Organizational quality is strongly related to all phases and the overall measure of politics. Organizational speed is related to all phases and the overall measure of politics. Goal achievement, working capital, and unrestricted funding ratio are moderately related to politics. Working capital ratio is not related to politics.

Following is a detailed reporting of the results of the partial correlations (controlling for organizational age and size). Quality is positively related to 37 of the 51 measures of politics, with 26 measures significant at the .05 level or better, and 11 at the .10 level, using a one-tailed test. The overall measure of politics is strongly associated with quality ( $r = .76, p < .001$ ). Additionally, all of the non-significant associations between politics and quality, with the exception of one item in the second phase, exhibit a positive relationship. Consequently, collaborative politics in all phases of the strategic decision process is strongly related to a high quality SDP.

Speed is positively related to 24 of the 51 measures of politics, with 20 measures significant at the .05 level or better, and 4 at the .10 level, using a one-tailed test. The overall measure of politics is strongly associated with quality ( $r = .60, p < .009$ ). Of the non-significant relationships, 18 are in the hypothesized direction. Thus, collaborative politics in each phase of the strategic decision process is strongly related to a faster-paced process.



Goal achievement is marginally associated with a collaborative political process. Of the 51 measures of politics, goal achievement is positively associated with 12 measures, seven at the .05 level of significance, and five at the .10 level of significance. There is no overall statistical support for a positive relationship between politics and goal achievement, but there are indications of potential relationships.

Average working capital is significantly related to only seven single item measures of politics, all in the hypothesized direction. Overall, there is no support for a positive association between politics and average working capital.

Average working capital ratio is significantly related to only two single items of politics and one of nine dimensions of politics. Therefore, because of the lack of significant relationships, and due to two negative results, there is no support for a positive association between politics and average working capital ratio.

Unrestricted funds as a percentage of total funds are marginally related to politics. There are 11 single items of politics positively associated with unrestricted funds, six at  $p < .05$ , and five at  $p < .10$ . Politics are significantly related to unrestricted funds ratio in the support dimension of Alternative Generation - Phase 2 ( $r = .61, p < .008$ ), and in the support dimension of Implementation - Phase 4 ( $r = .47, p < .039$ ). The unrestricted funds ratio is also significantly related to Phase 2 (Alternative Generation) of the SDP ( $r = .44, p < .050$ ). It should be noted that although the other four phases and the overall measure of politics are not statistically associated with unrestricted funds ratio, the results are in the hypothesized direction. There is weak support for a positive relationship between politics and unrestricted funds.

Hierarchical multiple regression results are reported in Table 6. Quality was related positively with total politics ( $B = .71, p < .001$ ) and total politics made a substantial incremental contribution ( $\Delta R^2 = .39, p < .001$ ) to variation in quality, after entering the control variables. Consistent with expectations, collaborative politics enhanced the quality of the strategic decision process, explaining 64 percent of the variation in quality.

Speed was positively related with total politics ( $B = .63, p < .05$ ) and total politics also made a substantial incremental contribution ( $\Delta R^2 = .31, p < .05$ ) to variation in speed after entering organizational size and age. Collaborative politics contributed to a faster-paced SDP, and explained 31 percent of the variation in speed.

The results with the other four outcome variables are insignificant. The change in  $R^2$  in goal achievement, after entering controls, was only .06. Entering total politics into the regression, after the controls, slightly increased the amount of variation explained in both average working capital and average working capital ratio ( $\Delta R^2 = .06$  and  $.02$ ). The amount of variation explained in unrestricted funds ratio weakly increased with the addition of total politics ( $\Delta R^2 = .10$ ).

**TABLE 6**  
Results of Multiple Regression Analysis of  
Strategic Decision Process Outcomes

Independent Variables	Dependent Variables					
	Quality	Speed	Goal Achieve	Working Capital	Working Capital Ratio	Unrestricted Funds Ratio
<b>Controls:</b>						
Organization Size ( $\beta$ 's)	.20	.32	.19	-.23	-.60 <sup>a</sup>	.21
Organization Age ( $\beta$ 's)	.42	.07	.38	.53 <sup>a</sup>	.35	.22
R <sup>2</sup>	.31	.14	.26	.21	.26	.14
Adjusted R <sup>2</sup>	.21	.01	.15	.08	.14	.02
Regression F (df = 2,14)	3.07	1.11	2.43	1.58 (2,12)	2.13 (2,12)	1.14
p	.08	N/S	N/S	N/S	N/S	N/S
Total Politics ( $\beta$ 's)	.71 <sup>d</sup>	.63 <sup>b</sup>	.27	.27	.14	.35
R <sup>2</sup>	.70	.45	.32	.27	.28	.24
Adjusted R <sup>2</sup>	.64	.32	.16	.07	.08	.06
$\Delta$ R <sup>2</sup>	.39	.31	.06	.06	.02	.10
Regression F (df = 3,13)	10.33	3.54	2.00	1.33 (3,11)	1.40 (3,11)	1.34
p	.001	.05	N/S	N/S	N/S	N/S

<sup>a</sup>  $p < .10$    <sup>b</sup>  $p < .05$    <sup>c</sup>  $p < .01$    <sup>d</sup>  $p < .001$

In summary, of the six SDP outcome measures, quality and speed (representing internal measures of performance) are strongly related to politics in the hypothesized direction. Results on goal achievement (an internal measure), and unrestricted funds ratio (an external measure), offer borderline support for the hypothesis. The two measures of financial performance, average working capital and average working capital ratio, are not related to politics. Therefore, since results of the partial correlations and the hierarchical multiple regression are mixed, there is limited support for the hypothesis.

The interviews suggested even stronger support for the hypothesis than was indicated by the statistical results. Quality, speed, goal achievement, and unrestricted funding ratio were all reported as strongly associated with collaboration in the SDP. The statistical results strongly supported only quality and speed, with marginal support for goal achievement and unrestricted funding ratio. The interviewees thought the relationship between cash flow (measured by average working capital and average working capital

ratio) and a collaborative strategic decision process was more tenuous, supporting the statistical findings of no relationship between collaboration in the SDP and financial performance.

## DISCUSSION

An important contribution of this study is support for the role of collaboration between the board/executive level in fostering high quality and timely strategic decision processes. There are also indications that collaborative politics might be associated with better progress on goal achievement and in a stronger unrestricted funding position.

The findings reveal that collaborative politics in all phases of the strategic decision process are perceived as playing an important part in achieving an overall level of excellence in making strategic decisions. In addition, a timely, well-paced strategic decision process is seen as positively associated with political behaviors that are open to all decision makers, promote the sharing of information, and are based on integrative negotiation in each of the five phases of the SDP.

The findings also indicate that the beneficial effects of collaboration in achieving sociocultural goals might be more prominent in the Implementation phase of the strategic decision process. Four of the nine single item politics measures (two at  $p < .10$ , two at  $p < .05$ ), the support dimension ( $r = .46, p < .05$ ) and the composite Implementation Phase politics measure ( $r = .45, p < .05$ ) are significantly related to goal achievement.

This study reveals some interesting findings on the relationship between politics and the unrestricted funding. As with goal achievement, collaborative support building seems to be important to a positive unrestricted funds ratio in Alternative Generation (Phase 2) and Implementation (Phase 4). The organization seems to be better able to attract unrestricted funds if formal alliances and forums are used to develop alternatives and when task forces, committees, and ongoing planning processes are not stalled or ignored. When supporters and non-supporters both work to implement a decision, the unrestricted fund position is more favorable. Additionally, when the entire process of Alternative Generation is characterized by collaboration, the unrestricted funds ratio appears to be positive. This trend is also exhibited in all phases of the strategic decision process, but is not a statistically significant result in this study. An unexpected result is that competition in the negotiation style dimension in both the Issue Identification and the Alternative Generation Phases is related to a positive unrestricted funding ratio.

Contrary to expectations, the results indicate that politics has virtually no association with financial performance as measured by average working capital and average working capital ratio. Perhaps these results are due to organizational variation in working capital. Two of the organizations had negative working capital, while three others had no liabilities and thus a large working capital. Financial measures of performance seem to be problematic in many studies (Judge and Zeithaml 1992; Murray, Bradshaw, and Wolpin 1992; Provan 1980; Pearce and Zahra 1989).

Although the findings provide marginal support for linkages among the study variables, no causal inferences can be made about the pattern of associations reported because of the cross-sectional design of the study. The primary weaknesses of this type of research design are threats to internal validity, especially the presence of confounding variables that are related to the independent and dependent variables, and the timing of measures.

The sensitive nature of politics had three effects on this study. First, anonymity had to be offered to the respondents; thus identification of either respondents or non-respondents was precluded. Such samples of convenience are naturally subject to the possibility of bias that limits the extent to which valid inferences may be derived from the results, thus, limiting external validity.

Second, the sensitive nature of the subject matter, especially with the occurrence of the Foundation for New Era Philanthropy<sup>1</sup> scandal in the middle of data collection, decreased participation rates, thus severely limiting the size of the sample. Also, without a strong endorsement from local arts advocacy groups, it was difficult to convince organizations to be part of this research project.

Another limitation of the study is the small sample size. The small sample size increased the level at which correlation coefficients were significant. Thus in studies with larger samples, correlation coefficients in the teens would be significant. In this study, the correlation coefficient needed to be greater than .34 to be significant.

The use of scales created for this study limited the construct validity of the measures. Only through repeated use in a variety of research situations can measures be assessed for some degree of construct validity. However, it should be noted that all of the measures were derived from the literature, and all of the reliability coefficients were acceptable.

Drawing on the theoretical insights of the power/political view, this study has looked at how boards may be involved in the strategic decision process. The results indicate that high quality and timeliness are associated with collaborative politics, and there are indications that goal achievement and unrestricted funds might also be associated. Measures of working capital are not related to collaborative politics in this study.

By emphasizing processes, this study offers a unique way to increase understanding about key corporate governance interactions between boards and executives in the strategic decision process. While the model was tested using a cross-sectional research design, there is potential for longitudinal research. In addition, the research model opens up avenues for intra- and inter-sector comparisons. Collaborative political activities at the board/executive level may offer a way to improve strategic decision process outcomes, thereby strengthening corporate governance. However, additional research and thinking must be done to continue increasing the stock of knowledge in this area.

## Notes

<sup>1</sup> The Foundation for New Era Philanthropy was founded in 1989 by John G. Bennett. The New Era claimed to represent a consortium of anonymous wealthy donors who wished to make matching grants to funds that nonprofit organizations raised. The nonprofits' funds to be matched were to be put on deposit with New Era for six months, then returned with a 100-percent match. In the first few years, the New Era formula was very successful. News of Bennett's fund-raising miracle spread rapidly in the nonprofit world and in six years New Era took in more than \$354 million from about 500 church and nonprofit groups, such as United Way of Southeastern Pennsylvania, The Philadelphia Orchestra and the Franklin Institute. In reality, the anonymous benefactors did not exist and Bennett fulfilled his promise to the first charitable groups from money from later organizations and a multimillion-dollar credit line, in what was a giant Ponzi scheme. The game unraveled in May, 1995 and Bennett pleaded no contest to an 82-count indictment charging him with fraud, money laundering, and tax evasion. The bankruptcy and collapse of the double-your-money fundraising scheme of the Foundation for New Era Philanthropy had damaging and widespread effects, especially in the Philadelphia area. Some effects included: lower donor confidence in fundraisers, questions about nonprofit investment policies and board of director oversight, and erosion of faith in the effectiveness of governmental watchdogs.



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