Making Strategic Decisions Together: Do We All Need to Agree?

By Henning Piezunka , INSEAD, and Oliver Schilke , The University of Arizona

How organisations’ decision-making rules affect the way individual managers vote.

Top management teams often find it difficult to agree on a course of action for their firm. Whenever we participate in firm strategy retreats, we see managers grappling with collective decisions. After weeding out inferior strategic alternatives, they are left with a set of promising but mutually exclusive options, and often struggle to make a call. Since it is unrealistic for every manager to agree on a single option, the more relevant question is *how many* do need to agree before a strategic decision is made?

When organisations set a high threshold for approving a project – such that almost all managers need to be in agreement – it is clear that few projects will move ahead. As such, to encourage more investments, organisations may modify their decision-making rules, lowering the threshold required to approve new projects.

While this appears logical, this structural change may fail to bear fruit. Our **research** reveals that lowering the bar in the hopes of making it easier for projects to get the go-ahead can have unintended consequences. When less consensus is needed, the more an individual's support counts. This makes individuals more conservative about how they vote and reluctant to voice their support.

Changing the rules changes how people vote

Suppose a company is considering a major investment to expand its production capacity and its decision-making process requires at least 75 percent of a committee of senior managers to approve any new investments. However, they come to believe that requiring a majority vote is too high a standard and may hinder their ability to grow, so they change the rule to only require a simple majority.

After lowering the threshold, however, committee members begin to scrutinise proposals more carefully and become less inclined to approve new investments, even those with strong potential for success. Ultimately, the new voting structure does not yield the desired effect.

Why are managers more reluctant to support new projects when voting rules change? We conducted a series of experiments to examine how decision-making rules shape how individuals vote.

In our studies, participants assumed the roles of partners in a venture capital firm and were tasked to vote on whether to invest in certain start-ups. Data was collected via **online workshops** that are still open to the public. Each participant was aware of the voting threshold (which we varied systematically) and had access to limited information about each company.

We found evidence that a high threshold makes individuals more relaxed about how they vote, while a lower threshold causes them to be significantly more cautious. This effect held across different threshold magnitudes, different group sizes and independent of whether individuals deliberated before voting.

Essentially, knowing how much your vote counts influences how you vote, and substantially so. People anticipate what needs to happen for their vote to make a difference. For example, in a scenario where one vote would be sufficient to move ahead, individual decision-makers become acutely aware that they may be the pivotal voter and become more reserved about how they vote. Put differently, individuals are a lot more careful when they know their decision can be the make-or-break vote and will only voice their support if they’re absolutely certain they are right.

This isn’t necessarily because they’re worried about being blamed for making a bad call, but rather, they fear they don’t have enough information to make the right call. By lowering the threshold, organisations give more power to individual decision-makers. However, people might not necessarily be comfortable using that power.

How to really encourage organisational risk-taking

Organisations need to be aware that changing decision-making rules won’t automatically translate into better organisational decisions. This is because it will also change how people vote; individuals will adjust how they vote based on the new rule.

If lowering the bar for projects to pass doesn’t work, how can organisations promote more risk-taking?

One approach could be to implement a straw poll to see where everyone stands before making a go/no-go decision. This method can help decision-makers learn from their peers, gain a better understanding of the project's potential impact and assess whether it aligns with the organisation's overall goals.

This approach can be especially useful when the decision involves a high level of risk and managers are hesitant to take a chance on a new project. By gathering inputs from others, decision-makers can gain confidence and insights that may help them make a more informed decision.

Another way could be to not disclose how much each vote counts. This could help decision-makers focus on the project's potential rather than engage in strategic voting by considering how much influence their vote has. By removing the weight of their vote, people may make more objective decisions.

Alternatively, organisations could maintain a consistent voting rule but occasionally give managers a "golden ticket" to trigger the go-ahead for projects that appear risky, but they believe have the potential for significant impact.

Instead of lowering the bar for project approval, organisations should prioritise creating a culture that values risk-taking and encourages managers to follow their instincts. In order to arrive at the best decision, top management needs to reflect on how to make the decision.

*Sign up for the next Venture Capital, Business Angels & Startups online workshop **here**.*

Find article at
https://knowledge.insead.edu/leadership-organisations/making-strategic-decisions-together-do-we-all-need-agree

---

About the author(s)

Henning Piezunka is an Associate Professor of Entrepreneurship and Family Enterprise at INSEAD and a Visiting Professor at The Wharton School.

Oliver Schilke is an Associate Professor of Management and Organizations at the Eller College of Management at The University of Arizona.

About the research

"The Dual Function of Organizational Structure: Aggregating and Shaping Individuals' Votes" is published in *Organization Science*.