

# WORKING PAPERS

The complexity of decision-making processes  
in non-profit organisations

Manuel Carlos Nogueira\*

ISSSP - Instituto Superior de Serviço Social do Porto

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## **Introduction**

This paper gives a literary review on the topic of decision-making – processes in non-profit organisations (NPO). At the beginning of this article, a description of the nature of non-profit organizations and an overview of primary theories regarding the third sector is given. Later, the theories behind decision-making process are exposed and how turnarounds and leadership can affect the decision-making process in a non-profit organisation.

Non-profit organisations work in the interest of public society. Salamon and Anheier (1992), posed that the main goal of a non-profit organisation is to offer services to the public where the government is unable to and profit organisations do not find given service profitable nor beneficial. In other words, the third sector acts as an organisational expression to civil society. Non-profit organisations do not have a pure economic motivation to work (Langabeer. 2008) and they are a part of a bigger and more complex system together with government, stakeholders and other organisations (Bloom & Heyman, 1987). The multifaceted nature of non-profit organisations creates a lot of decision-making dilemmas (Anheier, 2000).

However, it is important to mention that effective decision-making has an important role in the success of the organisation (Tucker, et al., 2010. Concentrated vs. Distributed Decision-making).

## **What is a non-profit organisation?**

The complex and internationally recognised characteristics of non-profit organisations that seek to trace problems from all possible angles have been brought in by Salamon and Anheier (1992). Both authors understand the non-governmental non-profit sector as a set of institutions primarily serving public interests.

They designate the five basic characteristics of non-governmental non-profit organisations:

1. Organised - have a certain institutional structure and organisational reality, regardless of whether they are formally or legally registered.
2. Private - they are institutionally separated from the state administration and are not controlled by it. This does not mean that they cannot have significant state support or that government officials cannot be civil servants. Decisive is the fact that the basic structure of non-profit organisations is inherently private.
3. Non-profit - in the sense of non-distribution of profits. They do not allow for any redistribution of profits arising from the organisation's activities between owners or management of the organisation. Non-profit organisations can generate profits through their activities, but these profits must be applied to the goals of the mission of the organisation.
4. Self-governing - have their own procedures and structures allowing them to control their activities. Non-profit organisations are not controlled by the state or any other external entity as they should be able to manage themselves.
5. Voluntary - they use voluntary participation in their activities. Volunteering can be reflected in the unpaid work for the organisation or in the form of gifts or honorary participation in boards of directors.

Non-governmental non-profit organisations are highly important since they fill a gap between the market, the state and common citizens. Where the state is unable to provide the necessary services, nor is it beneficial for private companies to provide them as well as clients not being able or willing to pay the market price, a place is created for these organisations.

Langabeer (2008) describes organisations which are not established for the primary purpose of enrichment. These entities can be set up on the initiative of a group or individuals

who have a common passion or effort to change things. Their desire is so strong that these people can give up their work, their free time, energy and means to achieve their goals. An economic gain is not important to them. This is the first sign and a prerequisite for the establishment of new non-profit organisations.

An important prerequisite is the well-chosen and formulated goals. There are normative conditions to be met by the founder and a well-formulated goal. This is analysed by a competent authority following the submission of the registration application, which ensures that the same service is not provided in a given region by several organisations. As the main reason for this review, the authors would like to mention the financial side. The functioning of the non-profit sector is entirely dependent on the subsidies and gifts it derives from the surrounding area, whether it is by subsidies from the state or private entities.

In the following sections we focus on the purpose of setting up non-governmental non-profit organisations as defined in "Non-profit organisations, entrepreneurship, social capital and economic growth". Every non-profit organisation is set up for the main purpose of solving a problem or prevent it from occurring. The authors reported two purposes for establishing non-profit organisations (Brahmani et al., 2009). The first is to address the public problems entrusted to the state, which the state or the private sector did take into consideration and influence the policy direction for the market and non-profit organisations. The second is to prevent the emergence or spread of public problems.

## **The differences between civil society and non-profit organisations.**

### Definition and functions of civil society.

For a clear idea of the non-profit sector and its organisations, it is good not only to know current trends and generally applicable definitions, but also their historical and theoretical nub. That is why, in the beginning, the definition and function of civil society will be briefly assessed. According to Maslow, the term civil society in social sciences is perceived as a social fact. In the past, many citizens have been involved in non-profit organisations has already mentioned economists such John Locke and Adam Smith in economic terms, and philosopher Jean Jaque Rousseau. Among the current authors, who are engaged in civil society, Weigle and Butterfield understand it as an "independent self-organisation of a society whose individual parts voluntarily engage in public activity to meet

individual, public or group interests" (Poisson-de-Haro & Turgut, 2012). Moreover, they point out that within civil society, citizens can express their "opinions, values, and project them into action".

One of the civil society theorists is Ralf Dahrendorf. He sets out the three conditions that must be fulfilled so that we can entitle a community a civil society. These are the existence of the so-called third sector, which does not belong to the state administration. A key feature is the voluntary meeting of citizens based on their own initiative and the active involvement of members of civil society in achieving common goals, where the basic features of tolerance, coherence and solidarity are fundamental (Dahrendorf, 1958). Another author, Adam Ferguson, *apud* Ferguson (2001), understood as an opposite of civil society a society uncivilized and non-cultured, without civic sentiment.

#### Definition of the non-profit sector and the objectives of non-profit organisations.

In the previous section, we have defined civil society as a basic democratic system which functions as a space for the so-called third sector, or non-profit sector, which is "an institutional expression of the life of civil society". Potůček characterises the non-profit sector as an organized part of civil society. This definition connects briefly and accurately these two terms (Saaty, 2008).

From the definition of non-profit organisations (institutions based on principles of civil society) it is possible to derive the general purpose of these organisations. One can affirm that the expression "non-profit organisation" clearly indicates an entity whose goal is not financial enrichment, therefore a non-profitable institution. Marek Skovajsa (2010) in his book extended this idea to several principles. He pointed out that the goals of non-profit organisations, also referred to as the civil sector, can have an unlimited number of causes. The objectives of the civil sector are "legal, non-limiting personal, political or other rights of citizens, and not the pursuit of private profit or direct participation in the exercise of political power" (Skovajsa, 2010).

There are two types of non-profit organisations. The first are institutions that fall under state administration and serve public service activities and are ran by state institutions; and non-state non-profit, or private, non-profit organisations. This study focuses on organisations of the second type (Skovajsa, 2010).

An important step in the success of non-profit organisations is the correct

establishment of their vision, mission and goals. The vision's formulation is the first step for establishing the organization and for successfully implementing its mission. The vision, in contrast to the mission, has a less concrete form. It is focused on the future and can be more common than one organisation. Thus, the mission has a concrete form since it is unique and mirrors the meaning of the organisation. The mission is linked to objectives and must be included in the official founding documents (Malyshev, et al., 2010).

### **Primary theories about non-profit organisations.**

We can say that today's non-profit organisations have four basic theories.

#### Government Failure / Market Failure Theory.

In some literature we can find this theory under the name of the theory of public goods, because it is interconnected with them. The author of this theory is considered by Burt Weisbrod. Public goods are one of the basic concepts that this author considers for the intervention of the State in the economy. But since the State does not always promote the supply of these goods properly, non-profit organizations are created for this purpose. We can see this as a state's failure. This theory claims that consumers are not satisfied by the market or the provision of public goods are turning to non-profit organizations that can help meet those needs.

#### Contract Failure Theory/ Trustworthiness Theory.

The essence of this theory is the basis of information asymmetry. For this term, we can imagine a situation where consumers do not have enough information to faultlessly assess the quality of the goods or services they buy and then consume. The consumer is aware of this handicap and tries to eliminate this information disillusionment by all possible means. This is what the non-profit organisations are doing, because their primary goal is not to maximise profits. In the opinion of this author in the case of non-profit organisations, control mechanisms lose some of their importance, since they are suppressed replaced by higher mutual confidence between the parties. It is possible to conclude, that non-profit organisation is governed by so-called "credibility" status. Thus, the non-profit sector theoretically offers an alternative to both a profitable and often inelastic state sector (Aldhean, 2017).

### Welfare State Theory.

This approach was best described by Francioni et al. (2008). This theory looks at non-profit organisations from a historical point of view. He argues that this sector should be pushed to the brink of addressing social problems. Therefore, it should act only as a complementary complex in meeting the needs of the market and the state. Progressive industrialisation entails the emergence of new public financing needs, because (industrialisation) reduces the functions of a traditional family and distorts (shifts) certain categories of individuals whose work becomes redundant – youth, the elderly, the sick and the handicapped. Because traditional social institutions are unable to meet the needs of these "vulnerable" entities, the state is expanding almost automatically.

### Interdependence Theory.

This theory works with the question "What can be the benefits of cooperation between the non-profit sector and the state?" There is a proven answer to the above question, for example by the authors of Salamon and Anheir (1992), who believe that non-profit organisations often respond much faster and earlier to the needs of people than the state. The state can use the results of a non-profit organisation for its own activities.

Non-profit organisations often receive public support or at least public interest in certain issues, which can then be used by state institutions. Thus, it is possible to conclude that this view puts these organisations in the role of a pioneer which is meeting the needs of people in distress.

### **Decision-making.**

#### Decision characteristics.

Decision-making is a complicated process (Bloom & Heyman, 1987). By evaluating all alternatives, a decision is made when all expectations on the course of action and the final goal are taken into consideration. Furthermore, the success of the organisation is strongly connected to its decision-making practice (Tucker, et al.,2010).

In addition to multiple theories regarding the decision-making process, there are some general characteristics which describe the whole practice of decision-making. The types of

decisions viewed in this paper are:

- programmed and non-programmed;
- concentrated and distributed.

Programmed decisions are repeated multiple times due to the routine nature of organisational work where there are no significant new situations. The course of action is mostly the same. Non-programmed decisions, however, are made when the organisation faces a new situation or a new problem. Often the structure of these kinds of problems is complicated or they lack certain structure. These characteristics make the problem unusual and solving that needs more attention (Tucker, et al., 2010).

Concentrated and distributed decision-making style offers another aspect to the process of organisational decision-making. Concentrated decision-making concept puts the responsibility of deciding on the leader of the organisation while distributed decision-making approach means that the responsibilities are divided within the organisation to reach a decision. Moreover, the concentrated approach makes the decision-making process much quicker, but the distributed approach encourages more participation and inclusion while also having a stronger focus on organisational strategy.

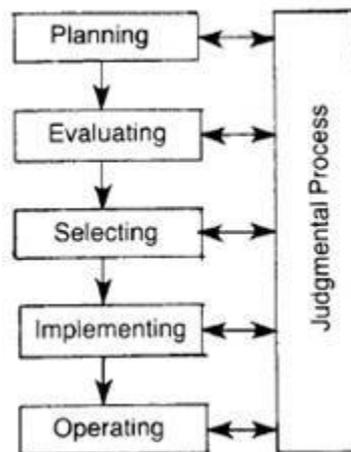
However, even if the distributed decision-making method is more empowering, organisations often choose to work with concentrated decision-making approach. This is mainly due to the fear of failure, wish to be more effective or keep the tradition of concentrated decision-making. (Tucker, et al., 2010).

#### Traditional decision-making.

Traditionally, decision-making process is strongly connected to the theory of rational choice where a rational thinking individual evaluates all possible plans and chooses the most suitable one (Bloom & Heyman, 1987). To create ideas and eventually put it into use there needs to be enough information collected. This information needs to include a consideration of the circumstances under what decision needs to be made (Domanski, 2016).

Traditional decision-making process should have as less subjectivity as possible. To achieve this aim, a logical and formal-decision-making process is created which consists of logical sequenced steps: assemble alternative plans, assess all alternative plans and select the best option. Due to the difficult dynamic essence of the decision-making process the logical selection may not be the most optimal.

Therefore, it is important to include subjective knowledge which is based on previous experiences and creativity. The formal and subjective processes in decision-making creates a “black-box”. Furthermore, the subjective analysis of all possible alternatives offers a new wide-ranging set of ideas that helps to better describe the formal process. After a decision has been made it creates consequences. These need to be closely checked and analysed to spot any differences from original decisions. In other words, an expanded decision-making process is created which also includes implementation and operating (Figure 1) (Bloom & Heyman, 1987).



*Figure 1.* The Expanded Decision-Making Process (Bloom & Heyman, 1987, p. 28).

### Rational theory.

Herbert Simon explains the concept of rationality by means of his contradiction, that is, by means of irrationality. Negotiations that are irrational are impulsive with unprompted emotional behaviour and immediate reactions. Rational action, according to Simon, is the opposite. Decision-making, based on rationality, is reflected on thought, calculation, being systematic and justification. It is associated with the principle of efficiency and ultimately the choice of an alternative that is most effective about the position of values in society. Therefore, it is a decision based on logic and efficiency, the so called common sense and practicality.

Robbins defines rational decision maker as "fully objective and logical" (Tucker & Sinclair, 2010). The problem is clear and all possible alternatives to decisions and their implications are known. Nevertheless, he also emphasizes that this is not a very real option, given the difference between reality and ideal conditions. Rationalist decision-making

theories have several common features, such as prediction logic, instrumental and effective use of resources to achieve the desired goals. Rational decision-making is in literature divided into formal decision-making and common sense. For the first type, there are distinctive features such as a significant decomposition of the problem, modelling of variants and quantification. For rational decision-making, based on common sense, the immediate practical experience of the decision-maker is a problem.

The first is to identify the problem, that is, what needs to be solved by taking a decision. Following is the identification of the decision criteria, what is important to the decision maker, i.e., what decision he will make. For example, buying goods can be dependable on various criteria such as price, performance and dimensions. The next point is the weighting of the decision criteria, i.e., which fulfilment of any of the above defined criteria is more important.

Then the decision maker creates various alternatives to solutions, such as selecting some of the most appropriate products that the market offers, and then the next step is to analyse them, when the implementation of the chosen criteria and their importance according to the decision-maker's preferences comes along. The final step is the evaluation of the result of the decision taken, i.e., whether the decision was taken correctly and whether the purchased goods really correspond to the needs of the decision-maker (Domanski, 2016).

### Strategic decision-making.

The basis of a strategic decision is the idea of making the most optimal decision (Aldehean, 2017). The strategic decision-making process (SDM) consists of different phases of decision (Hang & Wang, 2012). The main aim is to ensure there is a match between organisation's products and the level of uncertainty in the market where the product goes. The organisations need to be prepared for sudden changes in the market and be able to adapt to it. The key elements for an organisation to be able to quickly adapt to sudden changes for it are strategy, structure, innovation, improving efficiency and global expansion (Aldehean, 2017).

Strategic planning and strategic decision-making is closely related but are still independent from each other. Strategic planning consists of strategies, planning, finding a connection between external and internal environmental aspects of an organisation and creating strategies to deal with the dynamic and changing environment. Strategic decision-making, however, supports the planning with providing alternatives to choose from

(Aldehean, 2017).

There are many ways to build up a strategic decision-making plan, one being the two-stage decision-making process. The first stage consists of three steps: identification, analysing existing information about the environment and internal possibilities, ending with the development of a solution. In the second phase of decision-making there is more information gathering for improvement of the initial solution. The following steps would cover the financial side and lead to commitment of the decision. The success of the decision in strategic decision-making is strongly connected to the resources of the firm or organisation (Hang & Wang, 2012).

#### Dynamic system approach.

The dynamic system approach considers the challenging and dynamic environment of the organisation. Most quantitative approaches that use analytic tools do not often take the environment of the organisation into account. The dynamic model tries to face challenges like interaction between stakeholders and organisation, competition, difficulties in measuring results and the lack of research done in this field.

The main objective of dynamic system is to control the difficult nature of organisation interactions. Furthermore, the system strives to achieve a strong co-operation between different links in the organisation, such as the stakeholders and team members, and to use all experiences, knowledge and expertise provided by them. Community engagement is also a very important aspect in dynamic model, because it often enables organisations to come up with more innovative ideas. These kinds of complex systems that include many different aspects of organisation's daily work create an environment with shared understanding and stronger connection within the community (Tucker, et al., 2010).

#### Analytic hierarchy.

The analytic hierarchy method analyses multiple different criteria by dividing the problem into smaller parts and prioritising them (Figure 2). This helps to establish goals, criteria and all alternatives. The following step consists of defining priorities which is done by careful observation, comparison and judgement. To make comparisons between different alternatives, the analytic hierarchy model uses scale of numbers to describe the importance of

elements. A number is assigned to each pair of element showing which one of them is more dominant. Based on this judgement a matrix is created and through calculations the result is synthesised (Saaty, 2008).

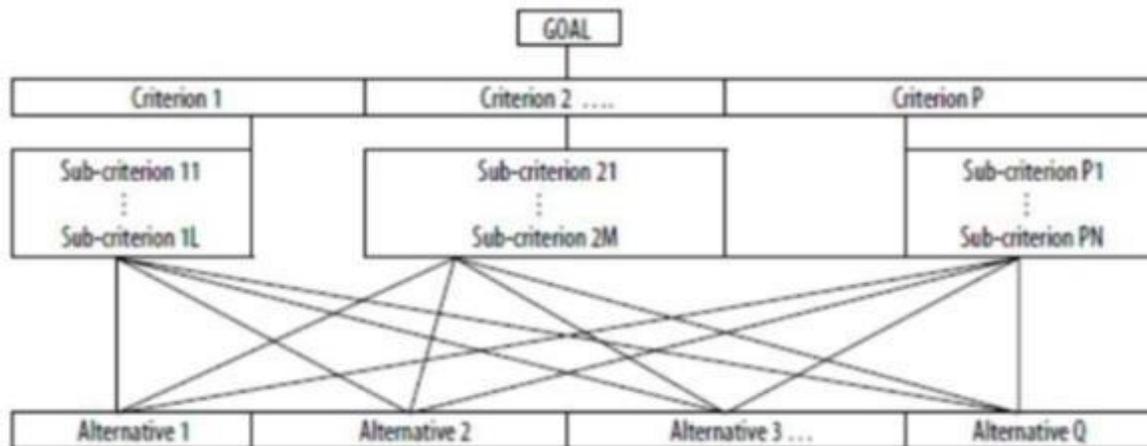


Figure 2. Analytic Hierarchy Process

### Behavioural Theory.

Herbert Simon has formulated the opinion that the decision-making is from a precise rationality because human knowledge is limited by boundaries such as capacity of perception, time, etc., and it is impossible to decide quite rationally because of the complexity of the problem (Winkler, 2007). This view is contained in behavioural decision-making theories. It is a type of theory that "criticises the formal theory of rational choice. They use other criteria and standards of rationality than formal theories. This type of theoretical concept is based on the principle of incomplete knowledge. The rationality of choice is bordered by options.

The essence of the incomplete capacity of human cognition is, according to Simon, a selective principle of perception, the inability to keep all information in mind as we are limited by a certain amount of time and capacity (Winkler, 2007). Simon and supporters of behavioural theory agree that in decision-making processes in organizations, including in the creation of new non-profit organizations, the lack of cognitive abilities and time leads to the fact that decision-makers are looking for only those information that is readily available. These theories have arisen in economics, but have already outgrown this perspective, as behaviourists are opposed to the concept of maximising utility and are seeking rather those decisions that satisfy decision-makers and are guided by the goal (Winkler, 2007).

### Incremental theory.

This theory of decision-making is based on Charles Linbloma's incrementalism. The principle of incrementalism is explained by the author as an approach when the solution to problems is achieved in a gradual manner. This approach is based on the determination of a larger number of small goals that follow. Getting one leads to the other. The same principle is based on incremental theory. Its author Charles Lindblom, believed that social life is inherently a kind of play of the interests of people, which is conditioned by mutual interaction and is dependent on external conditions (Winkler, 2007). Lindblom's notion of practical decision-making is not on one clear defined goal. However, in real situations, the ideal state that the decision-maker determines (before the process) is not a primary point of interest here. More important in the incremental theory of decision-making are the specific situations affecting the actors (Winkler, 2007).

In practical terms the decision-making process is in constant change and therefore must be redefined always. This is because the world is currently undergoing a constant and accelerated change (Winkler, 2007).

### **Decision-making and Management in Non-profit Organisations.**

The main difference between a non-profit organisation and a traditional business is that non-profit organisations do not have pure economic motivations (Langabeer, 2008). This author investigated the characteristics of non-profit management, mostly its similarities and differences with business and public management. Non-profit organizations differ from each other in terms of mission, size and impact. Furthermore, some are more like businesses and some resemble government agencies. Therefore, there is a need to define non-profit organisations and characterise its management more precisely.

Firstly, it is important to notice the impact of external environment and see the organisation as a part of a larger system that contains the government, suppliers and other organisations (Bloom & Heyman, 1987). In addition to various external influences, non-profit organisations also have a complex system of internal members, such as managers, experts, clients, volunteers and set of business contracts. Each component of the system provides input that eventually will create a certain working “culture” within the non-profit

organisation. This complex system leads to management dilemmas in non-profit organisation. However, having a holistic view on the system of the non-profit organisation will help to analyse organisation dimensions as series of choices (Anheier, 2000).

When it comes to internal environment of the non-profit organisation, it is beneficial to see how the decision-making process is built. The decision-making process in a hierarchical organisation is top-down and vertical giving the middle management less control (Anheier, 2000). The author describes this working method as a concentrated decision-making approach and suggested that many social sector organisations use it in their daily work.

However, in the same research a hypothesis was posed and investigated which stated that when the staff of an organisation is not involved in or does not have knowledge about the decision-making process, disempowerment and dissatisfaction arise which in turn create inefficiency and ineffectiveness in decision-making. To change this, organisations should investigate more empowering working methods, such as implementing distributed decision-making approach which gives power to staff from all levels and clarifies the process of decision-making.

Furthermore, financial attributes are the most important bottom-line or goal for-profit organisations but for non-profit organisation finances act more as means to support their bottom-line goals. This aspect brings out an important characteristic of a non-profit organisation - having multiple bottom-lines. The number of it of course depends on the function and foundation of the organisation. Some examples of multiple bottom lines can be:

- dual management where the board focuses on operating processes and management works with financial matters;
- the staff, volunteers and stakeholders have different motivations;
- non-profit organisations operate in a complex environment;
- client of non-profit organisations may not be willing or able to reveal their ideas and pay for the service (people with disabilities, elderly people, children);
- non-profit organisations have strong values.

Non-profit organisations work with social services and topics that are often difficult. Consequently, this aspect usually makes easy business transactions less efficient and sometimes even impossible. To conclude, diversity and complexity are the key characteristics for non-profit organisations and therefore the management needs to develop models and techniques that take these aspects into account (Anheier, 2000).

### **Leadership style in decision-making.**

The main task of a manager is to make decisions in the organisation and through leadership managers can deal with the changing business environment. Therefore, managers need to have good knowledge about different models, theories and processes regarding management. Managers need to make decisions in various areas. Some are more directly connected to analytical decision-making (hard skills) and some are more indirect and connected to relationships with the stakeholders and employees (soft skills). A competent manager needs to have knowledge in both (Poisson-de Haro & Turgut, 2012). Next, the author gives a brief overview on some leadership theories that are more connected to the indirect management skills.

#### Leader-member exchange theory.

The leader-member exchange theory is based on good quality relationships between the leader and followers. The good quality in relationship is characterised by trust, liking and respect and it contributes to the well-being and effectiveness of the followers. Leaders need to support and mentor their group members and give them opportunities to develop. The group members in turn demonstrate loyalty, higher level of voluntary behaviour and commitment (Erdogan & Bauer, 2015).

#### Contingency theory.

The contingency theory is put together from Fiedler's contingency model and the path-goal model. The main idea of this theory is that leaders must match with the appropriate situations. In Fiedler's contingency model, effective work is done if the leader's style and the leadership situation match. The path-goal theory says that leaders can analyse situations and adapt to them. The leader needs to use behaviour to connect effort, performance and outcome and offer support to other members. Leadership style must match with the preferences of subordinates (Blom & Heyman, 1987).

#### Transactional and Transformational Leadership.

Transactional and transformational leadership are strongly connected, since

transactional leadership provides the base for transformational leadership. In more detail, transactional leaders and their followers have an exchange based relationship. The leaders appeal their follower's self-interests through rewards. Transformational leadership goes deeper than just the relationship of exchange and gives a level of effort and performance to the theory. This involves certain characteristics such as charisma, inspiration, intellectual stimulation and individualized consideration (Blom & Heyman, 1987).

### **Decision-Making in Non-Profit Organisations Under Uncertainty.**

Despite the lack of economic motivation in non-profit organisations they still face turnarounds, bankruptcy or financial distress (Langabeer, 2008). Financial risk is one of the highest reported risks that organisations must face (Domanski, 2016). For optimising the decision-making process, it is important to consider the uncertainties in technical-economic and social-political situations that can be predicted (Malyshev, et al., 2010). An organisation in decline can be turned around and revived. Effective turnaround can happen with the help of several factors, such as upturn in financial process, change of policies and restoring profitability. However, the decision-making process becomes more challenging at the time of a decline and turnaround (Langabeer, 2008).

Non-profit organisations face many risk categories and therefore risk management is a necessary part in non-profit organisation's work. Because non-profit organisations face many uninsurable risks, managing these threats becomes more complex as well. The main risks discussed in academic literature are connected to partnership, co-operation, reputation, finances. In addition to the listed main problems, non-profit organisations often face risks like loss of goals due to high-income, staff death in organisations that work in conflict zones and advertising.

Risk management consists of:

- identification;
- assessment based on values and importance, creation of risk categories;
- taking advantage of the risk or preventing the risk with various risk management techniques;
- monitoring the process of risk management. (Domanski, 2016)

Based on research, non-profit organisations often use operational decision-making methods rather than strategic ways. Strategic decisions are characterised by adding new capacities, renewing leadership, quality or effectiveness whereas operational decisions consist of reducing cost, utilising assets and improving productivity. The reason for choosing operational methods can be linked to the fact that non-profit organisations wish to regain control over finances. The most common strategic decision is to change the leadership in the organisation (Langabeer, 2008).

## **Conclusion.**

In this paper, civil society as an environment of institutions of the non-profit sector was gradually introduced. The basic characteristics of these organisations are based on the previous text: volunteering, no profit, protection of public interests, independent of the state, solidarity and cohesion of members.

Non-profit organisations are the type of entity whose foundation is civil society. Their role is significant on the social and cultural integration of individuals and groups. Their activities are complemented by the state and the market by defending public interests and providing demand services.

In this study definitions of decision-making were introduced. Several theoretical theories, as well as the concept of rationality, were introduced. Decision makers built their theories on understanding rationality applying it in the decision-making process. Important for individual theories is a different view of rationality, which is perceived as complete or incomplete and further developed by authors. For decision-making, the important environment in which the process takes place, the values of individuals or society, and the situation that affects choice (life changes, time options for choice, etc.) are also important. All this together forms a boundary for individual decision-making processes. The individual authors formulated different theories, which need to be reminded that they are still the ideal theoretical models, which practically do not exist in practice.

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