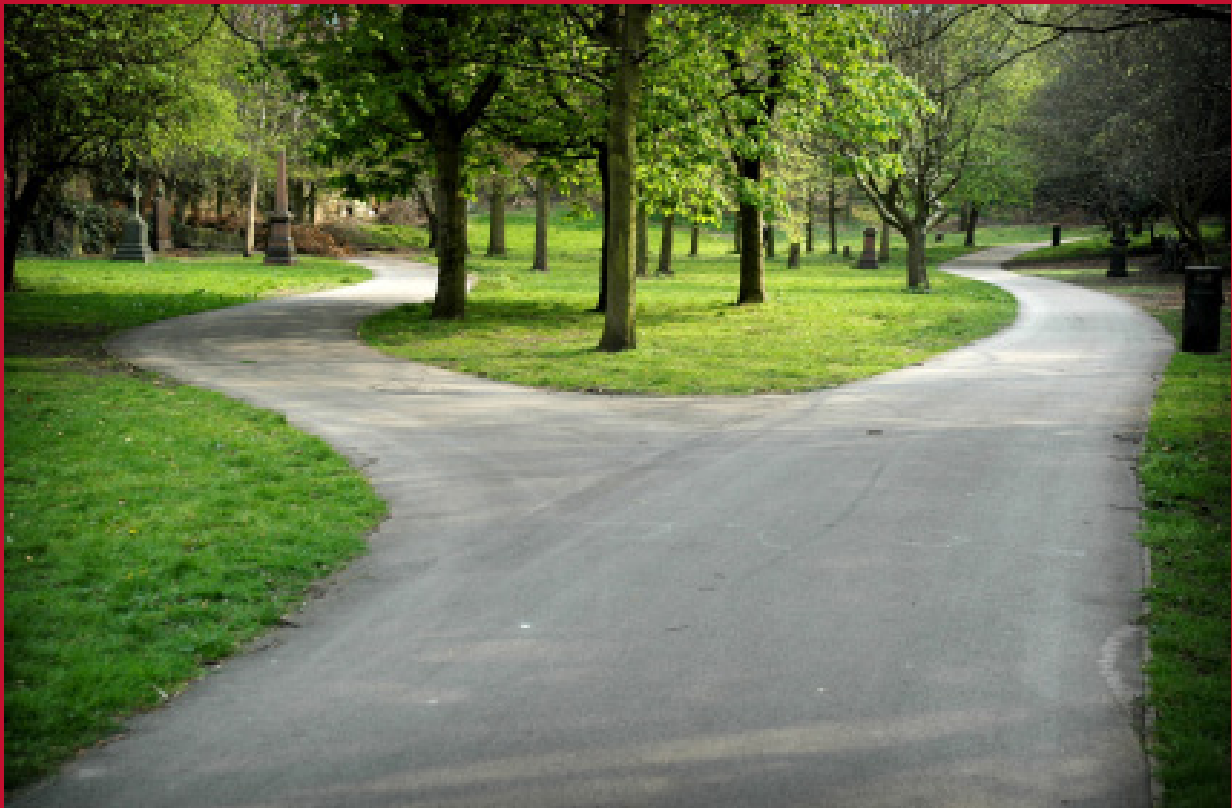


The Psychology of Effective Board Decision-Making

by Dr Mike Rugg-Gunn

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As the UK economy emerges slowly from recession and boards now look beyond survival tactics, many executive boards are struggling to make sense of the new world order. They are dealing with a variety of challenges, not least in making decisions on complex issues frequently with incomplete and ambiguous data that will impact their organisation's performance for many years to come.

So, what is effective board decision-making? How can boards avoid the pitfalls that have beset a number of high profile organisations over the past year? Here are some top tips for effective board decision-making:

- There is considerable research to support the view that groups composed of individuals with diverse backgrounds make different and better decisions than those with homogeneous backgrounds. For example, diverse groups deliberate longer, raise more facts about the issues under review, and conduct more wide-ranging deliberations making fewer factual errors. When errors do occur these are more likely to be rectified during the deliberations. This is less an issue of colour or creed but more that different perspectives, hewed from differing backgrounds and experiences, will enrich the quality of debate around the board table.
- However, the advantages conferred by a diverse board are neutralized by ineffective leadership. It is the CEO who runs the company and the Chairman who runs the board. Suffice to say that the best Chairmen listen to their board, refrain from stating their opinion until other board members have expressed theirs, and are willing to embrace contrary viewpoints as a means to ensure that the right decision is reached.
- The expression of dissent is often suppressed by a group desire for conformity. This fulfils a basic human need to 'fit in' and is the very antithesis of effective decision-making. Conformity in decision-making is increased when groups are faced with complex or ambiguous data and this may be the reason why some boards have struggled to make effective decisions when confronted with the realities of decision-making in times of uncertainty or adversity. There is now a belief, expressed by some Chairmen and CEOs, that those who were board members during the good times may not be effective at leading the business in times of adversity and that new board members, with different perspectives and skills, should now replace them.
- It is tidy to think that human beings are analytical and logical in their thought processes, and make and take rational decisions. The psychological evidence is less convincing. There are many biases formed in our decision-making. We think evidence weighs more heavily on the side of beliefs that we already hold than it actually does. To take a political example, if Tony Blair and George Bush had a prior belief of the existence of weapons of mass destruction in Iraq prior to the invasion of 2003, then they would have paid little attention to counter evidence. This is called

'Irrational belief persistence' and is a tendency to search for evidence that support beliefs that are already strong for us and afflicts the decision-making of groups as much as it does those of individuals. The antidote to this is to get directors out of the board room and ensure that they talk to stakeholder groups to fully understand what is happening in their market place. It is this type of visceral experience that will help to dislodge these irrational beliefs.

- Effective board decision-making will only be as good as the reliability and validity of the information that is fed into it. Boards should take care to calibrate the information coming in. This means asking probing questions (such as 'who says?; what's it for?; what is the competition working from?') to ensure that the information is robust and fit for input into the decision making process. To extend the Iraq war analogy further, who in the UK Cabinet was asking the simplest of questions to ensure the validity of the information presented by the Iraq dossier that had formed a pretext to take military action against Saddam Hussein?
- Finally, by far the most pernicious of psychological conditions in board decision-making is that of Groupthink. This is a dysfunctional pattern of group processes, frequently found within a tightly knit group, who are impervious to external influences and who converge on a pattern of behaviour convinced of their own infallibility. Some of the behaviours of groups afflicted by Groupthink are shown below in Table 1.

Table 1: Groupthink behaviours

Groupthink behaviours	Effective board behaviours
The board is more concerned with suppression of dissent than quality of decision-making	Every board member is encouraged to be a critical evaluator
The board is ruled by a directive leader who makes his/her wishes known	Leader maintains a neutral status and uses a facilitative style
The board rationalises and discounts warnings based on a selective approach to information gathering	Board members guard against wishful thinking based on flimsy rationalisations of warning data
Outgroups (e.g. partners and competitors) are stereotyped as weak or stupid	The board conducts a thorough stakeholder analysis to understand the implications of decisions
Board members choose the first option for solution on which there is a consensus	The board undertakes a systematic search through all the available options
The board fails to seek out expert opinion	Board members invite in experts to the meetings and discuss and question with them

Summary

A key belief underpinning the formation of boards is that groups will make better decisions than individuals working alone. The evidence is less compelling. While groups may, on average, make better decisions than individuals, they tend to fall short on the quality of decisions made by the best team member. This finding has fundamental relevance to the workings of executive teams or boards and, as we have seen, suggests that a variety of social processes can contribute to poor decision-making. Ultimately, effective board decision-making is an output of effective team working. This does not occur by accident but is nurtured and developed through a series of team building events that encourage team cohesiveness, but not to conformity in thought. As Dante said, 'The hottest places in hell are reserved for those who, in times of great moral crisis, maintain their neutrality.'

Ten top tips for effective board level decision-making:

1. Ensure that the composition of the board is as diverse as possible.
2. Calibrate (through questioning) the validity of information coming into the board.
3. Encourage directors out of the board room to find out what is really going on in the business.
4. Use sub groups of experts to consider key decisions.
5. Ensure leader impartiality during the process of decision-making.
6. Bring in alternative and extreme viewpoints to board discussions to promote diversity of opinion.
7. Encourage each board member to critically evaluate every decision.
8. Ensure that all members engage in a thorough search through all available options.
9. Conduct rigorous stakeholder analysis to understand the implications of big decisions.
10. Evaluate the board and its members regularly to ensure that both it and they are fit for purpose.

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