MIND BIAS BEHIND
BOARD DECISION-MAKING

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Abstract

Boards of directors have the duty to govern the firms they are responsible for. When addressing strategic challenges board directors make complex decisions concerning matters that may critically impact the organization's future, within an increasingly uncertain context. A considerable amount of board misleads decision-making have mind biases as root causes. Because board directors engage in strategic decisions, the potential negative effects of such biases are of utmost importance. World news has shown plenty of wrong decisions in the context of corporate governance. A taxonomy of a selected subset of mind biases is proposed. The identification and awareness of such bias constitute the first layer of protection, however, is not enough, as they rely on unconscious mechanisms, implying that one cannot usually correct own biases. However, by means of group or organizational consciousness, the effects of such biases may be reduced. This work departs from some of the main references in the fields of decision-making and systems analysis, aiming at providing lessons for the board's actuation.

1. INTRODUCTION

A few decades ago, Kodak decided to ignore the digital camera idea at its beginnings. As unfolded, such decision almost collapsed the company. Another example, The Royal Bank of Scotland has been so successful in

their mergers and acquisitions (M&A) strategy in the first years of the new millennium, that apparently the board might not have been aware of their own *emotional tagging*, *confirming evidence* or *frame blindness*, taking progressively more risk, until the 2008 financial earthquake. There are plenty of examples of board decision-making, where highly qualified and experienced board directors did not avoid the disaster, or at least ended up severely hurting the organizations they were accountable for. This text focuses on subtle mind thinking mechanisms, which unconsciously mislead leaders into bad decisions or sometimes aggravate crises already in place. In such cases, critical decision-making faculties, decisiveness and the finest judgment should drive the dynamics of board's decision-making (Bain & Barker, 2010). Recognizing biases and negative board behaviour is of the essence for boards' effectiveness (Pick & Merchant, 2012). The subject of mind bias impacting board decision-making, at individual, group and organizational levels is addressed in this research.

The main motivation to research this subject is backed by a need to integrate the three bias domains in decision-making contexts, where the frontiers cross several fields of knowledge: 1) as individual decision-makers, 2) group decision-makers, and 3) organization-wide cultures. Such subjects further suggest a dive into the fields of systems thinking, and risk management, which seem to be a very young field of knowledge, in perspective. Among the answers offered, one can point: 1) a proposal of a taxonomy for the main biases; and 2) some recommendations for preventing such biases in the first place.

2. THEORETICAL BACKGROUND

The nature of complex socio-political systems with their associated dynamic behaviours, increases uncertainty and the associated fear, which goes against human nature, creating unease and stress. Decisions that go against social beliefs or beliefs intrinsic to the individual, provoke internal conflicts, inconsistencies, and cognitive dissonance. The decision-maker, consciously or not, will find artificial justifications to justify himself for the chosen course of action. Under crisis situations cognitive shortcuts may further aggravate the situation at hand, ending up in disaster. Dörner (1997) argues that complexity may be characterized by non-transparency, interdependency, and complex dynamics behaviour over time. If decision-making in a "normal" environment can be affected by psychological factors, then under crisis it is further aggravated, fostering more biases on decisions processes. Hammond, Keeney, and Raiffa (1998) described seven general mind traps at play within organizational context: 1) anchoring trap, 2) status quo trap, 3) sunk-cost trap, 4) confirming-evidence trap, 5) framing trap, 6) estimating, and 7) forecasting traps. Finkenstein, Whitehead, and Campbell (2008) call further attention to mind traps originated by

pattern (mis)-recognition, and emotional tagging. Bazerman (2006) identified twelve biases, derived from three main heuristics: 1) availability, 2) representativeness and 3) confirmation. Moreover, Russo and Schoemaker (1990) had previously suggested two additional biases: 1) frame blindness, and 2) group failure. Dawes (1988) also elaborated on the consequences of framing effects, suggesting that scenario thinking may be of help for improving decision-making under complex contexts.

Cognitive biases can be further amplified by 'groupthink', which is understood as the practice of making decisions as a group, resulting typically in unchallenged and poor-quality decisions. Once cognitive biases are combined with 'groupthink', the biases remain uncorrected and decisions may be aggravated. Taking the OODA loop as a reference frame, cognitive limitations can impact the search ('Observe') and interpretation ('Orient') of data from real-world situations affecting the decision-making process ('Decide'). Table 1 presents some of the main biases that may potentially affect decision-making at the board level and beyond.

Table 1. Main mind biases

Mind bias	Description
Anchoring	Attach decisions to initial values or past events, not giving enough attention to other information or factors.
Confirming evidence	Seek out for confirmatory information that supports an existing instinct or point of view while avoiding information that contradicts it.
Emotional tagging	When emotions affect the way a situation is analysed, and whether to pay attention to something.
Estimation misconceptions	Taking fast conclusions, based on partial information and without taking a few minutes to think about the situation. Underestimating external events and related interactions.
Frame blindness	Addressing the wrong problem because a mental framework for the decision set in with little thought, overseeing other options or lose sight of central ideas.
Memory retrievability	Memorized events are more weighted or focus on the events that we remember best get more weight in the decision process, ignoring others.
Overconfidence	Miss to collect key information because we are too sure about the correctness of the made judgments.
Social effect	Stick to the existing state of affairs or assume decisions of a group or relevant people as good choices. By maintaining the status quo, prevents responsibility for a decision.
Sunk cost	Making choices in a way that justifies past decisions. Unwillingness, consciously or not, to admit a past mistake.
Track failure	Failure to generate an organized approach to understanding the taken decisions and to keep records to track the results and audit the process.

After analysing several disastrous decisions at the board level, most of these traps were present, together with others like the normativity, and deference to authority bias, which is aggravated in some

cultures (Asaoka, 2020). Hence, a greater potential for disastrous decisions arises. Obviously, decision-makers have different risk profiles, which also affect their risk estimation, and risk-taking propensity within structural factors (March, 1994). Moreover, besides the referred biases, which may appear within normal board dynamics, one may ask what could be said of exceptional situations, as would be the case of crisis management. In any situation, crisis or not, boards have the ultimate stake in leading the situation both internally and externally to the organizations, they are accountable for.

3. METHODOLOGY

The methodology used in this research is an inductive approach, from a systems perspective, whereupon analysis of each of the selected cases, cause-and-effect influences were considered. The above classification is used for uniformity purposes, and applied to the selected cases, as per Table 2.

Table 2. Biased decisions, consequences, and mind bias

Company	Year	Geography	Consequence	Bias	Obs.
Kodak	1975	The USA	Quasi-bankruptcy in 2011	(7)	Focus on wrong frame (analogue photography)
				(9)	Overconfidence in analogue technology
Daimler-Chrysler	1998	Germany; theUSA	Value destruction, tenths of billion $US	(8)	Mis estimation of risk
				(9)	Overconfidence about the cultural match (actually a mismatch) obscured reality
RBS	2008	UK	Bailout, £45 billion	(3)	Emotional tagging as a consequence of success in M&A
				(9)	Overconfidence in own success with M&A
Olympus	2011	Japan	Almost collapse	(1)	Hierarchical culture in Japan, where ranking bypasses sound decision-making and evidence

    Taking into account human cognitive limitations and the concepts of "bounded rationality" (Simon, 1990) and "limited rationality" (March, 1994), is it possible to minimise the effects of such mind biases? Some research suggests it is indeed, through awareness of such bias, and with a greater integration within teams and making use of the concept of "cognitive repair" (Dörner, 1997; Heath, Larrick, & Klayman, 1998). Better board development through adequate training with a focus on critical thinking and decisions analysis helps in preventing mind traps, while for organizational repair it needs deeper organizational learning.

Some analysis results regarding the main mind biases at play are summarized below. Such identification and classification help point out where to focus learning towards solution finding. Mind biases that are most common are overconfidence and estimation misconceptions. Even if related, such biases are common to several cases (see the two last columns of Table 2). By studying and analysing board decisions, it is possible by several processes, ranging from generic problem-solving methodologies up to systems thinking, to engineer "layers of protection" to prevent cognitive biases.

4. CONCLUSION

The identified mind biases have the potential to severely hurt organizations if boards cannot eliminate or at least minimise their pervasive effects. Hence, awareness is not only imperative but a real need exists for the understanding of individual biases, group biases, and then organizational biases, where organization culture has a say.

Literature suggests that several board poor decisions could be avoided, had some biases been prevented. It is possible to prevent disastrous decisions by means of redesigning the chances of mind biases occurring during critical decision-making situations, where time pressure and stakes are high. Such calls for the need to re-educate the professionals that act in such endeavours, together with some organizational re-engineering in order to compensate, detect and prevent the effects of such biases and cognitive limitations in the first place, by means of "cognitive repairs". Moreover, a turn from a person-centred perspective, focusing on single events and human errors, to a system centred perspective helps in developing understanding of the causes behind bad decisions, and to effectively introduce proactive safety measures.

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