A RESEARCH AGENDA ON DE-BIASING THE BOARD

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Abstract

Boards of directors have the duty to make sound decisions in order to govern the firms they are responsible for. A considerable amount of board misleading during decision-making has mind biases as their root causes. The last decades witnessed plenty of disastrous governance decisions which could be avoided, had some cognitive bias been prevented. Because board directors engage in strategic decisions, the potential negative effects of such biases are of utmost importance, as shown through countless examples. The identification and awareness of such mind traps constitute the first layer of protection, however, is not enough. Some frameworks and tools are in need to address such decision-making traps, in order to avoid organizational mis-performance or even disaster. Measures are needed to counter the decision bias, or even neutralise them, at the board level. Being the need for measures to minimise or neutralize the negative impacts of mind biases obvious, this research is focused on identifying solutions and understanding how such solutions can be implemented in practice.

1. INTRODUCTION

The pervasive effect of mind bias behind strategic decision-making at large has been raised previously by several authors (Dörner, 1997; Hammond, Keeney, & Raiffa, 2006; Pick & Kenneth, 2012; Bazerman & Moore, 2013). Such effects can be witnessed in well-known cases such as: 1) the quasi-bankruptcy of Kodak, once a giant company, and where the board of directors at some decision point (1975) was apparently blind to a major technological transformation within the industry; 2) the billions of dollars of value destruction originated from the Daimler-Chrysler merger in 1998; or 3) the 2008 bailout of RBS, which costed some £45 billion; among other popular cases. Moreover, specific cultures also contribute to aggravating the potential impact of biases on decision-making at the top (Asaoka, 2020).

Cognitive limitations together with the concept of "bounded rationality" (Simon, 1990) and "limited rationality" (March, 1994), make it difficult to deal with organizational complexities. March also suggests that individual decision-makers have different risk profiles and risk-taking propensity within structural factors, which end up affecting the way they estimate risk.

Such biases have the potential to negatively impact the decision-making processes and cause severe harm to organizations for which board directors are accountable. Being aware of the existence of such biases helps but is far from the needed measures to effectively minimise or neutralise the potential negative effects. With a greater integration within and across teams, it is possible to achieve "cognitive repair" in what bias concerns (Dörner, 1997; Heath, Larrick, & Klayman, 1998). Recognizing biases and negative board behaviour is of the essence for increasing the effectiveness of boards (Pick & Kenneth, 2012).

Therefore, some tools and frameworks may help minimise such negative impacts. A tool or framework is a model, and some models are more useful than others. Therefore, the researched approaches complement each other, as the use of multi-model approaches is more robust than sticking with a sole model, in the sense that each model covers each one's potential blind spots.

Água and Correia (2021) previously suggested a list of the main bias affecting board decision-making. There are significantly more biases beyond the ones listened to by the authors, however, the sample here listed are among the most common ones. A particular set of critical biases in the context of the board of directors functioning is the category of social effect and *groupthink* (Janis, 1971). Therefore, this text and the following research to be published addresses the following biases:

1) social effect and groupthink;
2) memory retrievability;
3) emotional tagging;
4) sunk cost;
5) confirming evidence;
6) anchoring;
7) frame blindness;
8) estimation misconceptions;
9) overconfidence;
10) track failure

By studying and analysing board decisions, it is possibly thought several processes, ranging from generic problem-solving methodologies up to systems thinking, to engineer "layers of protection" preventing the impacts of decision biases. Such measures can improve board development through adequate training, by using useful decision models.

The intention behind this short text is to share some information regarding the methodological considerations being followed, as well as the unveiling of some solution tracks that may minimise the mind bias, as individuals or when integrating boards.

2. METHODOLOGICAL CONSIDERATIONS

The used methodology behind this research is an inductive one, from which logical cause-and-effect influences are investigated. The useful frameworks and tools from which to derive measures contributing to improved board decision-making originate from fields outside of the corporate governance mainstream and normative approaches. Such frameworks are grounded on fields such as complex sciences; decision sciences and psychology (Finkenstein, Whitehead, & Campbell, 2008) or systems thinking approaches to risk governance.

These approaches together with a logical thinking process, rooted in the *Theory of Constraints* are used to analyse potential causal solutions and derive measures to deploy them in practice (Goldratt, 1994). Hence, this research focuses on usefulness for practitioners, as opposed to solely academic circles.

3. DEBIASING THE BOARD

Decision biases have a high impact on the fate of organizations. According to Finkenstein et al. (2008), one could group many of such biases into two broad categories: 1) judgment errors from the decision-makers and 2) decision processes, which failed to identify and correct such mistakes.

Oftentimes a bad decision comes from an influential person making a judgment mistake, which may be aggravated by the decision process itself. At other times the problems are discussed, however, the "wrong perspectives" are not adequately exposed nor corrected.

While one cannot easily eliminate his/her own bias, when working as a group, bias can effectively be reduced if not eliminated to some extent. Some authors suggest the use of *safeguards* and *red flags* external to the decision-maker in order to minimise or correct bad decisions originating from bias — something directly applicable to board directors functioning. Safeguards act as a counterweight against the enabling conditions that would hit reg flags, and many organizations do have governance best practices that help minimise bias within the board functioning process. Actually, the whole set of compliance codes and best practices are themselves examples of such countermeasures, which usually link decision-making with organizational goals. Finkenstein et al. (2008) perspective is, however, one among several other valid ones. Table 1 presents potential solutions, for the main biases at play, which require further research and design in order to become useful for the practitioner.

Table 1. Summary of potential solutions to counter bias at the board

Bias	*Potential solution*	*Obs.*
1. Social effect	• Establish safeguards and red flags • Ensure there is enough diversity across the board • Systematically revise past group decisions	*Groupthink* is one of the negative impacts within the social effects category. Use of formal problem-solving techniques as well as periodical replacement of board directors may be an effective countermeasure. Directors shall be vigilant about such phenomenon.
2. Memory retrievability	• Establish group processes targeting each other's positions	While one is unable to correct its own bias, one's peer on the board is usually able to do so.
3. Emotional tagging	• Establish safeguards and red flags	Safeguards act as a counterweight against emotional tagging.
4. Sunk cost	• Establish safeguards and red flags	Seek opinions from people not related to previous decisions.
5. Confirming evidence	• Establish group processes targeting each other's checks	Ask help from a "devil's advocate", and be aware he/she is not falling into the bias.
6. Anchoring	• Approach the problem from different perspectives and seek other's opinions	Think about the problem before asking other's opinions and beware of not anchoring others into the same mind bias.
7. Frame blindness	• Reformulate the problem in a neutral fashion, as well as both gains and losses	Only by establishing a positive environment where debate or inquiry is the norm can frame blindness be minimised or eliminated.
8. Estimation misconceptions	• Establish safeguards and red flags	Misconceptions originate from pre-judgements, experience, self-interest, and inappropriate attachments.
9. Overconfidence	• Establish "early warning" processes, triggered by risk thresholds	Beware of risks assumed on the company's behalf.
10. Track failure	• Use of a decision framework to categorise the problem based on the criticality	Once categorised, one of several response sequences is possible as a function of the problem criticality.

There is however a particular category of bias associated with groups functioning of which a board of directors constitutes a prime example. Such would be the case of the phenomenon named after Janis (1971) as *groupthink* — a common situation where members of a group fail to address and critically discuss different viewpoints, therefore fostering blind spots and increasing organizational risk. The group members behave in such a way to minimise intragroup conflict and keep harmony. Such groups may fall under the mistaken illusion of invulnerability, which ends up suppressing dissent ideas and alternatives because the pressure for uniformity overwhelms such alternative behaviours. When the board is however facing a crisis, besides the previously discussed guidance, some framework suitable for managing complexity shall be used.

Having identified "suspect" solutions for the most common biases affecting decision-making at the board level, this research further moves into 1) the verification of causality existence (ensured by determinism) and 2) how to make such solutions deployable, hence useful for the practitioner.

4. CONCLUSION

Mind biases considerably undermine decision-making processes, and poor decisions at the board level can be burdensome to businesses. Hence, a greater potential for disastrous decision-making arises. Such issue is more critical at top leadership echelons, especially critical at the board level, and organizations shall implement defence mechanisms against such biases. Disastrous decisions can be prevented through measures that range from organizational processes, training of individual board directors, to the implementation of "cognitive repairs" where the focus is removed from the individual and pout at the group level (Heath et al., 1998). An investment in decision-making improvement may have a higher return than almost anything a business can do, and for the simple reason that such improvement costs generally little but may create enormous wealth and shareholder value. The subject here addressed is under further researched and a logical model is being set up to bring clarity and provide the basis for board directors' guidance at the individual, group, and organizational levels. The outcome of this research shall not only identify solutions for the most common biases undermining decision-making at the board level but also clarify and understand how such solutions can be deployed in practice.

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