Top 7 Boardroom Biases

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We all have cognitive biases. There are seven Cognitive Biases that we see in almost every boardroom that can and often are sabotaging decision making. These seven biases especially impact board and CEO succession. If the leadership wants to make sure to get the best people on the Board, in the CEO position and in the C-Suite, then the starting point is asking the right questions. Following are the 7 most common cognitive biases affecting decision-making any boardroom:

1. Pessimism Bias

This is when we overestimate of the probability and harmful effects of negative future events. Pessimism bias impacts the boardroom in many ways; Risk aversion is on the top of the list. When a board acts as a wet blanket on the ideas and strategy of management innovation is stifled. Cynicism and negativity will stifle the creativity, energy and courage of the CEO and therefore by extension the rest of the organization. Pessimism bias can also be recognized through falling returns, product and service innovation and increasing employee turnover over time compared to the industry competitors.

2. Optimism Bias

This bias causes someone to believe that they themselves are less likely to experience a negative event. The classic example of this is people who smoke or engage in other unhealthy habits. They rationalize that the negative effects of their habit won't happen to them, in spite of the evidence. The key impact of optimism bias on the boardroom is excessive risk taking. It can be recognized when there are things like glossing over the evidence – this can be done either the board or the management.

Conducting pre-mortems could be a helpful tool to combat both a pessimism bias and an optimism bias. A pre-mortem is when you imagine the strategy went wrong and then think about what could have caused that.

3. Conformity/Courtesy Bias

This is the act of matching attitudes, beliefs, and behaviors to group norms, politics or being like-minded- the tendency for a culture of politeness to be a barrier to candid, necessary and constructive debate. The main impact in the boardroom of this bias is the lack of healthy debate – this is more of an issue in certain regions of the world. The presence of this bias can be

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recognized when there are few or no questions asked in the meetings even on the most contentious issues. Putting process in place that will force structured, evidence-based decision making is quite helpful for this. The board is forced to go through the steps of evidence-based decision making.

4. Anchoring Bias

Anchoring bias causes to over-rely on the first piece of information received in decision-making. Even though there are subsequent pieces of information that challenge the initial understanding, we over rely on the first piece of information. It forms the foundation of thinking about the issue. Anchoring biases lead to preventable failures. The big impact in the boardroom of anchoring bias is an unwillingness to change. Below are few tips to protect boards from getting stuck in the anchoring bias trap:

I. Make decisions at the right level. This is best accomplished by delegating.
II. Make decisions that align with strategy and allocate sufficient resources to it. Test the business case against the strategy.
III. Increase the quality of interactions during decision-making by exploring alternatives – present counter arguments.

5. Confirmation Bias

This bias causes the tendency to search for, interpret, favor, and recall information in a way that confirms or supports one's prior beliefs or value. People seek out information, news stories, social media sources, relationships that will confirm what they already think about something. This bias is probably the one that most affects succession planning because the board members are looking to hear the things that confirm what they already knows and understands. Based on based on incorrect assumptions, it can lead to make rash, snap judgements. One of the most practical things a board can do to avoid confirmation bias in CEO and in board succession is to use structured tools and interview process that both have clear indicators of attributes and experiences that are clearly defined.

6. In Group Bias

This bias is a pattern of favoring members of one's in-group over out-group members. This can be expressed in evaluation of others, in allocation of resources, and in many other ways. For e.g. the elected board members tend to be one group and the appointed another and each think in terms of their group on the board. This bias can be recognized on the board when a small group of people making all of the big decisions or who have more influence on those decisions than others on the board or when there is a group who don't feel like their voices have been heard. The responsibility for combating ingroup bias lies primarily with the Chair of the board. It is his or her responsibility for setting the tone and culture in the boardroom, and a healthy boardroom culture means inclusivity.

7. Egocentric Bias

Ego-centric bias is the tendency to rely too heavily on one's own perspective and/or have a higher opinion of oneself than reality. The real impact of egocentric bias is that board members act in their own self-interest rather than in the best interest of the organization to which they owe their fiduciary duty to. The best tool for keeping egocentric bias out of the boardroom is to recruit for character. Make character consideration a part of the board renewal process.

All biases are not necessarily bad. Our brains develop biases as a way to adapt to our environment. They help us to be nimble – to make quick decisions. If we are in a dangerous situation, we should be thankful we have some biases to back stop us. In the boardroom, sometimes people with optimism biases and pessimism biases can counter each other and therefore cause more fulsome dialogue – their range of divergent thinking gets expanded.

Another example is that In-Group bias can help with board unity and solidarity. And Conformity bias usually makes for a board that is highly respectful – the board as a team will often place the collective ahead of self-interest. So that is some good that comes from bias. Anchoring bias can be a good if the decision makers anchor on the right things.

So, what can be actually done about unconscious bias – when an individual don't even know about the existence of such bias. The first step is to *pre-contemplation*– introduction of something that had never been considered before as a possibility due to unawareness, denial, or complete disbelief of it. The second step is *contemplation*–after something is brought to attention, it must be realized. The third stage is *preparation*, where one explores about how they feel about the bias and prepare to change (or not). The next stage is *action* which includes implementation of a plan for change. The final stage is *maintenance*, which involves maintaining a life without the bias.

Some useful guidelines to eliminate biases in boardroom discussions:

a. Individual directors: Consider and review your own impact on the last 3 board meetings you attended. Think about your own impact on the decisions and people. Practice using the "substitution" technique. In other words, substitute one person for another and consider whether you would have treated or interacted with one differently than you would have with another.

b. The Board: Board as a collective should engage in some planned reflection. This can start with a review of the last 5 decisions made by the board and;

1. Think about the impact of the board on these decisions and look for presence of any bias in them
2. Think about board engagement and the impact of bias on how healthy the engagement was
3. Practice using the "substitution" technique; would a decision have been made differently if someone else had presented the case for it? Someone from a different faction of the board perhaps.

4. The board should also set aside some time for interaction with the CEO and;
    - Identify the 3 most recent times where there was a positive engagement between the board and management, and,
    - 3 recent times when there was a less than positive engagement between board and management.
    - Systematically work through each of those against the 7 most common boardroom biases and look for look for patterns. Is one or more bias common to all 3 negative engagements? What can we learn from this? What can we change? How can we change?