

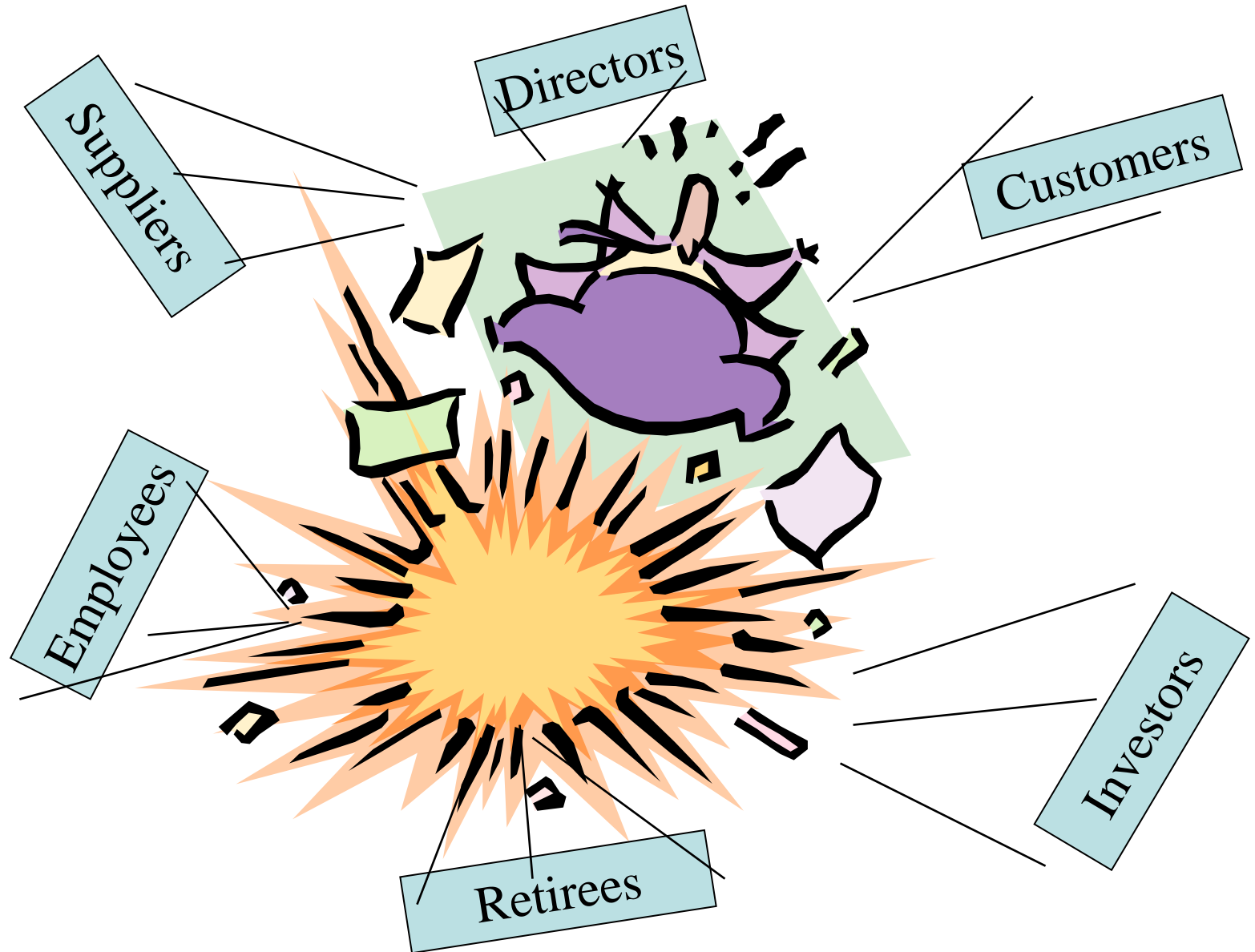
# **Overcoming Groupthink to Improve Board Decision-Making**

**Dr. James Fraser  
Volunteer Dean  
Directors College  
RTC-NACD**

# **A Few Dubious Board Decisions . . . . .**

- **Quaker Oats paid \$1.7 billion for Snapple. . . . .  
3 years later they sold it for \$300 million**
- **Novel purchased Quattropro and WordPerfect for \$1 billion . . . sold it 2 years later for \$181 million**
- **Disney's board OK'd the lucrative severance package for Michael Ovitz**
- **Enron's board decided to waive the company's ethics code**
- **Daimler bought Chrysler for \$37 billion, sold it for \$7 billion**
- **NYSE's board approving Richard Grasso's \$187 million compensation**

# The Impact of Poor Board Decisions



**Consider These Stakeholders in  
Bear Stearns, Lehman Bros., Wachovia, Merrill Lynch,  
Circuit City, GM, AIG**

**Investors**

**Creditors**

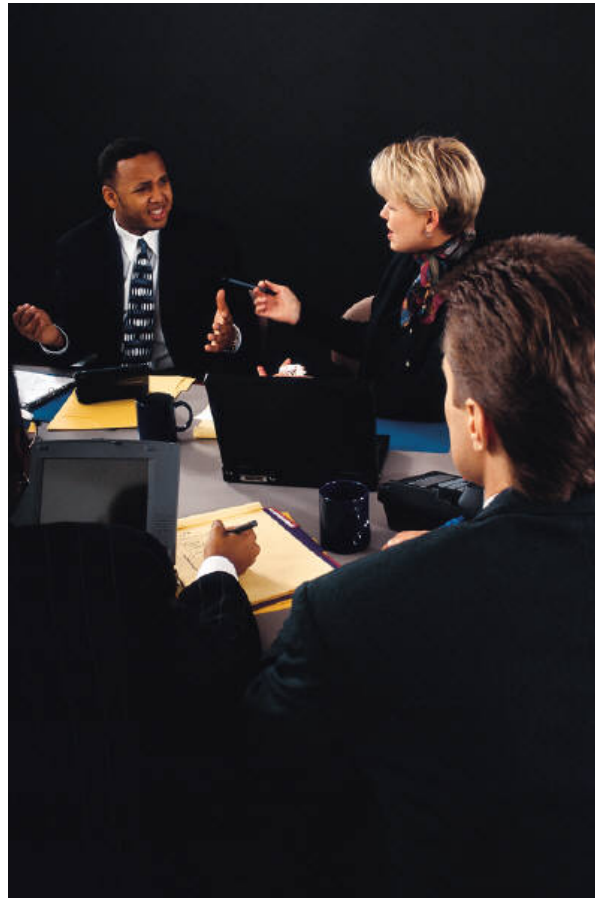
**Employees**

**Retirees**

**Company officers**

**Directors**

How do boards, typically made up of smart people, make such ultimately poor decisions?



# Decision Traps



# Top Ten Most Dangerous Decision Traps

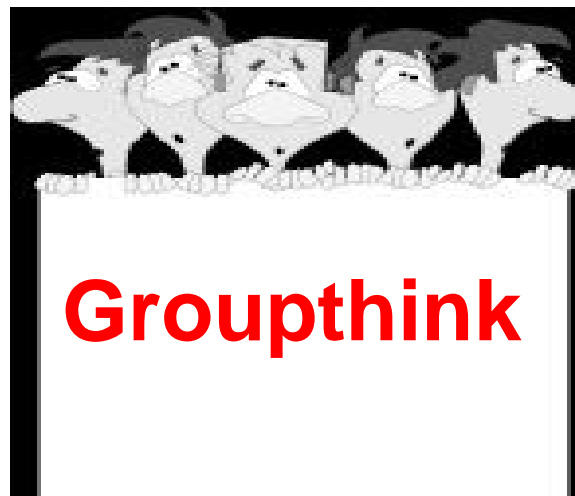
- **Plunging In**
  - **Frame Blindness**
  - **Lack of Frame Control**
  - **Overconfidence in Your Judgment**
  - **Shortsighted Shortcuts**
  - **Shooting From the Hip**
  - **Group Failure**
  - **Fooling Yourself About Feedback**
  - **Not Keeping Track**
  - **Failure to Audit Your Decision Process**
- Perspective Issues**
- People (Efficiency) Issues**
- Process Issues**

Source: *Decision Traps*; Russo & Schoemaker

# Decision Trap #7

## Group Failure

..... Assuming that with many smart people involved,  
good choices will automatically follow,  
and therefore failing to manage the group decision process



# Today's Objective . . . . Raise Your Awareness of Groupthink Issues

- **What is it?**
- **Conditions Conducive for it**
- **Symptoms**
- **Decision-related effects of it**
- **Avoiding/overcoming it**

# The discovery of groupthink

- Social psychologist Irving Janus's work focused on group communications
- He wondered why groups of intelligent people sometimes made decisions with disastrous results
- He was puzzled by the inability of very intelligent people to make sound decisions
- His research led him to the term "Groupthink"

# What is groupthink?

- A term coined by social psychologist Irving Janus in 1972
- Janis defined it as “a mode of thinking that people engage in when they are deeply involved in a cohesive group and the members’ striving for unanimity overrides their motivation to realistically appraise alternative courses of action”

# Selected definitions.....

- The **tendency** of members of a committee, profession, etc **to conform** to those opinions or feelings prevailing in their group
- The act or practice of reasoning or decision-making by a group, especially when **characterized by uncritical acceptance or conformity** to prevailing points of view
- The situation in which **each member of a group attempts to conform his or her opinion** to what they believe to be the consensus of the group

**In plain English . . . . .**

**Group-think is “Grown-Up”  
Peer Pressure In Action**

# Or it Could Also be Called....

- **Intellectual laziness**
- **Mental loafing**

# Outcomes of groupthink?

- Janis further said, “groupthink occurs when a group makes faulty decisions because group pressures lead to a deterioration of mental efficiency, reality testing, and moral judgment that results from group pressures”
- Groupthink can lead to bad judgments and decisions being made. It serves as a simple way to deal with difficult issues

# Historical Examples of Groupthink

- Lack of U.S. preparedness at Pearl Harbor
- Bay of Pigs invasion of Cuba
- Challenger disaster (NASA management)
- Worldcom accounting fraud
- Enron's house of cards
- Fannie Mae/Freddie Mac problems
- GM strategy during Wagner's reign

# From a Board Perspective, What Might Contribute to This?

- Time constraints
- Desire to belong to the group
- Placing personal gain (benefits) first
- CYA (safety in numbers)
- Focus on long term personal survival
- Disproportional airtime during debate



“Boards aren’t really dumb,  
they’re just human”

John W. Payne, Ph.D.

Duke University

“In too many cases, Boards  
are incompetent groups of  
competent people”

John Carver;

*Boards That Work*

“Too many non-profit boards  
end up being impressive  
collections of accomplished  
people doing low level work”

Richard Chait

*Grant Thornton Newsletter*

# Boards of Directors and Conditions Conducive to Groupthink

- Cohesiveness among the members
- Board has had little turnover among members
- Board's leader is directive; does not encourage divergent opinions
- Organization has been successful
- Pressure exists to make a quick decision
- Board members have inadequate information for making their decision

# Such Conditions can Lead to These Boardroom Blunders

- Examining few alternatives
  - “satisficing”
- Not being critical of each other’s ideas
- Not seeking expert opinion
- Being highly selective in gathering information
  - “the nutshell briefing”
- Not developing contingency plans

# 8 Symptoms of Groupthink

- Illusion of invulnerability
- Collective rationalization
- Belief in inherent morality
- Excessive stereotyping
- Pressure for conformity
- Self-censorship
- Illusion of unanimity
- Self-appointed 'mindguards'



# Symptom 1: Illusion of Invulnerability

- Creates excessive optimism that encourages taking extreme risks.
- “we’re so good/strong, we can’t possibly lose”
- Wall Street firms and mortgage market risk



# Symptom 2: Collective Rationalization

- Members discount warnings and do not reconsider their assumptions.
- NASA Challenger disaster
- planning for post-invasion Iraq
- sub-prime mortgages, CDO's, risk

# Symptom 3: Belief in Inherent Morality

- Members believe in the rightness of their cause and therefore ignore the ethical or moral consequences of their decisions.
- Enron's board waived the company ethics policy to allow certain accounting methods to be used

# Symptom 4:

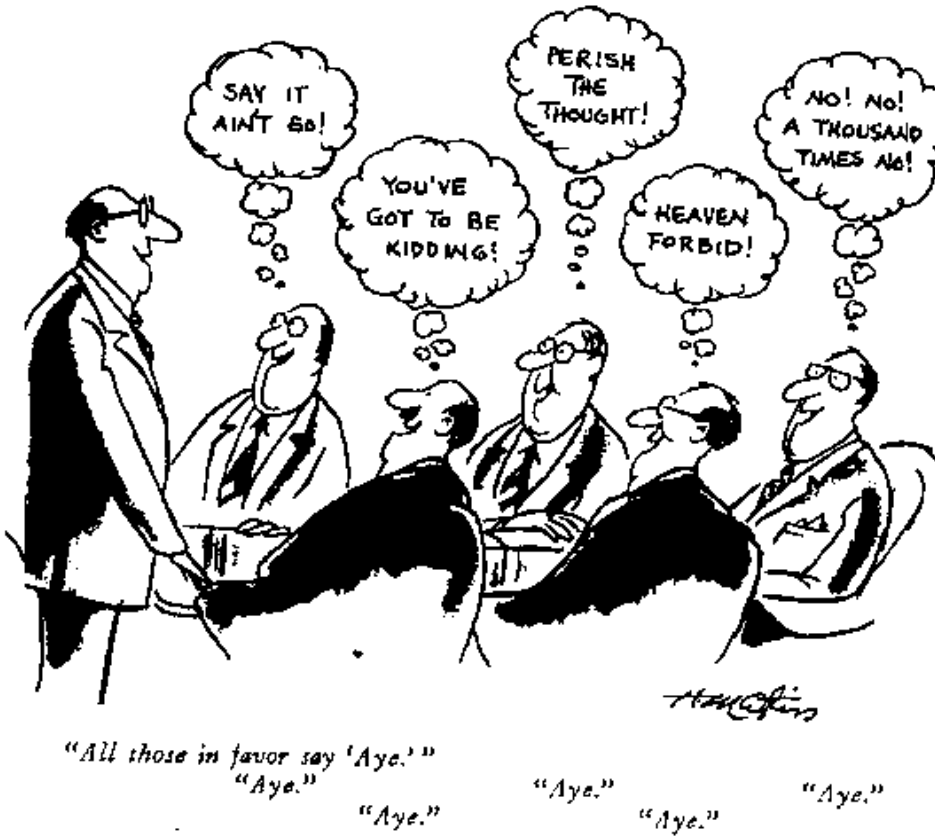
## Excessive stereotyping

- The group constructs (and) believes negative stereotypes of rivals
  - U.S. automakers early views of Japanese competitors
  - U.S. view of Somali warlords (ala *Blackhawk Down*)
  - Lord Corporation “NVX”

# Symptom 5: Pressure for Conformity

- Members are under pressure not to express arguments against any of the group's views.
- Disney board on Ovitz's comp. package
- Ford Motor Co board under Henry Ford II

# Sypmtom 6: Self-censorship



- Doubts and deviations from the perceived group consensus are not expressed
- Enron, Worldcom, Tyco, et al

# Symptom 7: Illusion of Unanimity

The majority view  
and judgments  
are assumed to  
be unanimous;  
silence is seen as  
consent



..... Ties back to self-censorship

# Symptom 8: Self-appointed ‘mindguards’



- Some members appoint themselves to protect the group from information that is problematic or contradictory to the group’s view, and/or decisions
- The “political loyalist”

# 8 Symptoms of Groupthink

- Illusion of invulnerability
- Collective rationalization
- Belief in inherent morality
- Excessive stereotyping
- Pressure for conformity
- Self-censorship
- Illusion of unanimity
- Self-appointed 'mindguards'

If any of these exist, the chances to step into a trap are high

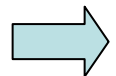


# Decision-making Traps Caused by Groupthink

- Group limits its discussion to only a few alternatives
- The solution initially favored by most members is never restudied to seek out less obvious pitfalls
- The group fails to reexamine those alternatives originally disfavored by the majority



And



# Decision-making Traps Under Groupthink

- Expert opinion is not sought
- The group is highly selective in gathering and attending to available information
- The group is so confident in its ideas that it does not consider contingency plans



# If Groupthink Seems to be Occurring

- Speak up, tell the group what symptom you see, let the group know they may be falling into the trap
- Ask to be educated; play dumb with probing questions that bring a different perspective to the discussion
- Let the group know it's OK not to know all the answers, then develop a plan to find them
- Challenge all statements made by an individual speaking for the group such as “I think we can all agree .....



# Avoiding Groupthink in Boards

- Everyone should be made aware of the causes and consequences of groupthink
- The Chairperson should avoid stating preferences and expectations at the outset
- The Chairperson should consistently encourage an atmosphere of open inquiry
- The Chairperson should give a high priority to airing objections and doubts, and be accepting of criticism
- The Board should always consider unpopular alternatives, assigning the role of devil's advocate to several strong members
- Spend a considerable amount of time surveying all warning signals from rival organizations

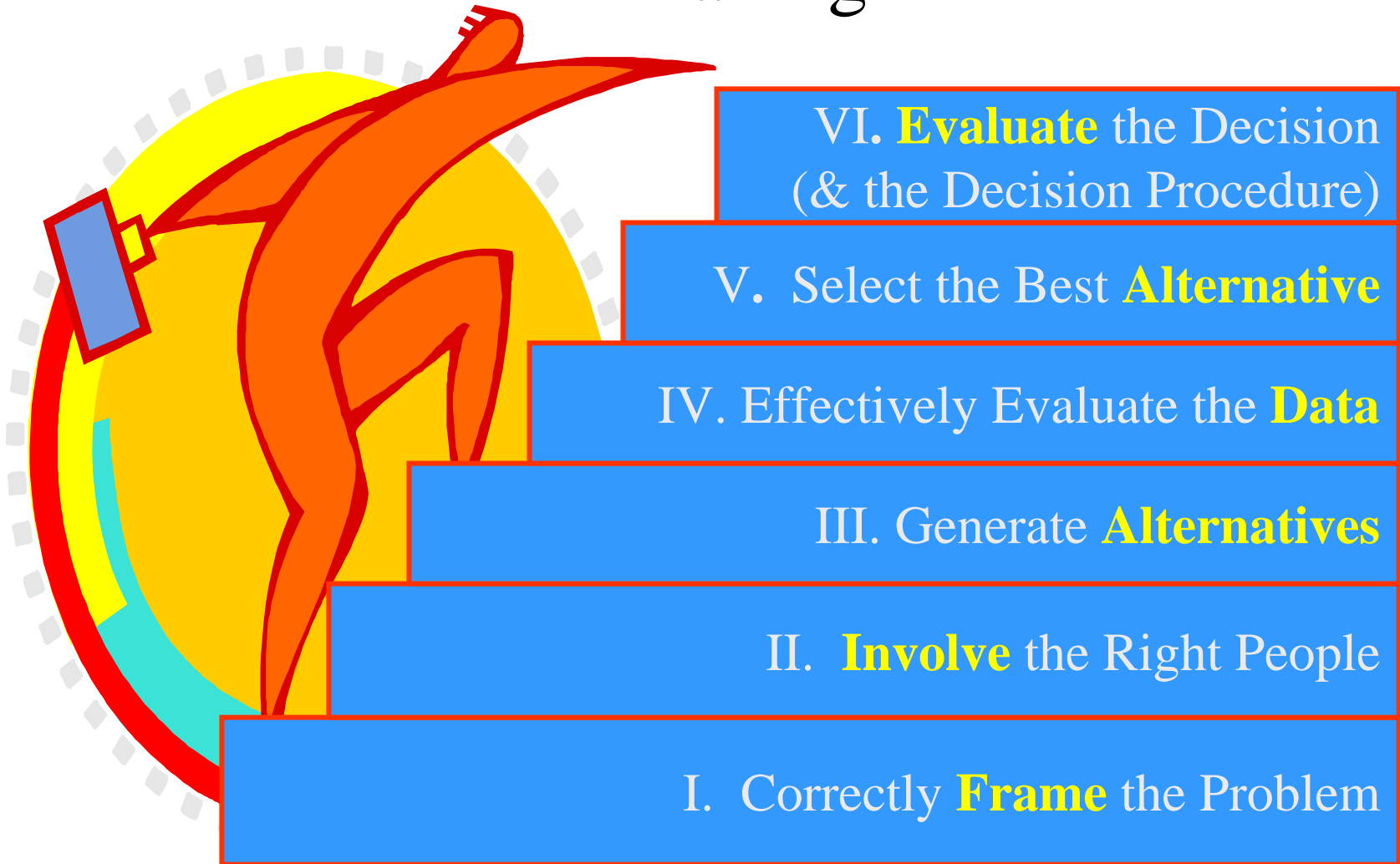
# Avoiding Groupthink in Boards

- After reaching a preliminary consensus on a decision, all residual doubts should be expressed and the matter reconsidered
- Outside experts should be included in vital decision-making
- Tentative decisions should be discussed with trusted colleagues not part of the board
- The Chairperson should assign the role of critical evaluator to each member
- Break into separate groups or subgroups to devise a recommended solution, then compare
- Don't force decisions because of time pressures

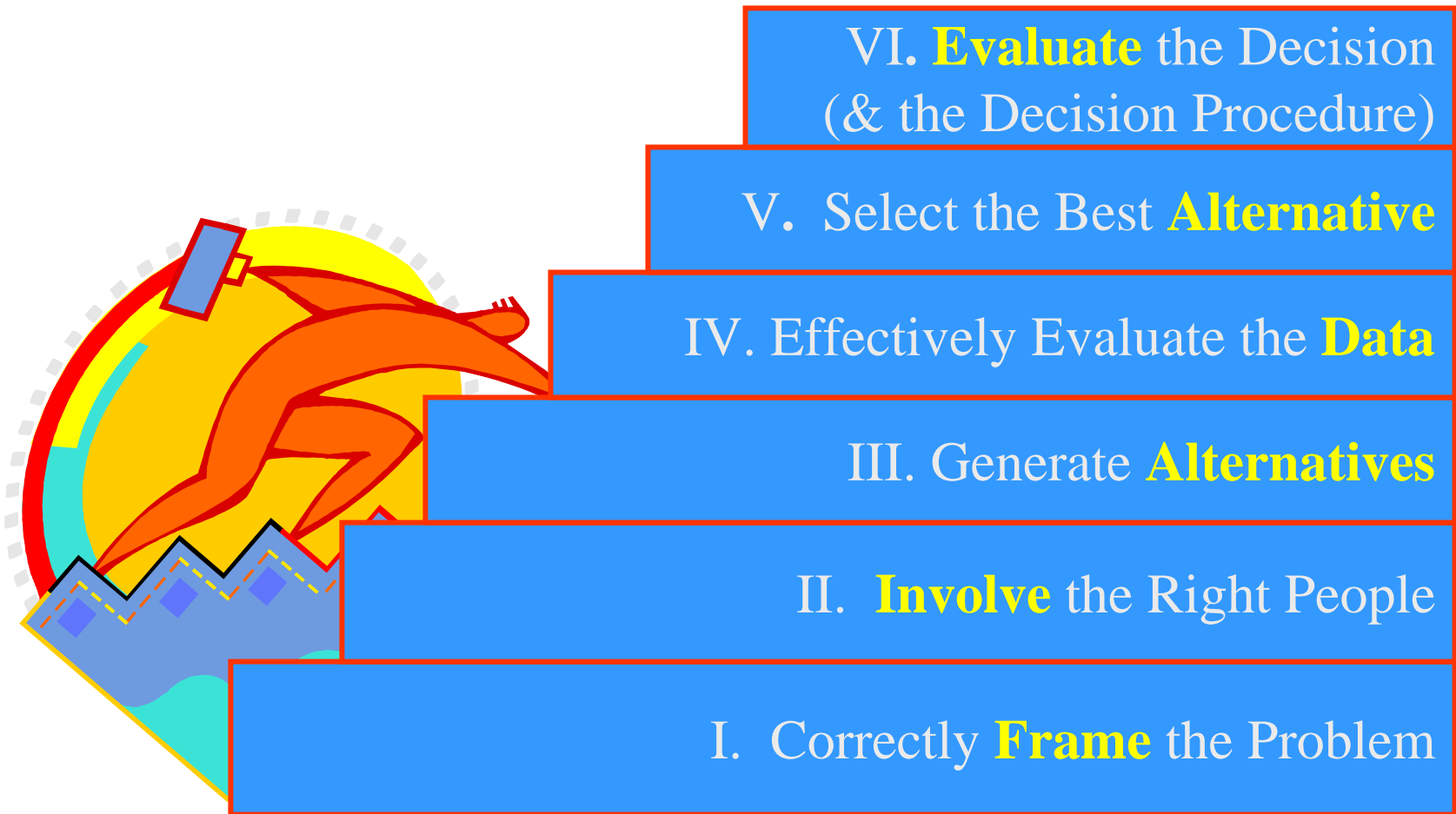
# Summarizing: Boards and the Pitfalls of Groupthink in Decision-making



# Six Steps to Effective Board Decision Making



# Groupthink Can Cause Stumbling Along the Way



# Today's Objective . . . . Raise Your Awareness of Groupthink Issues

- **What is it?**
- **Conditions Conducive for it**
- **Symptoms**
- **Decision-related effects of it**
- **Avoiding/overcoming it**

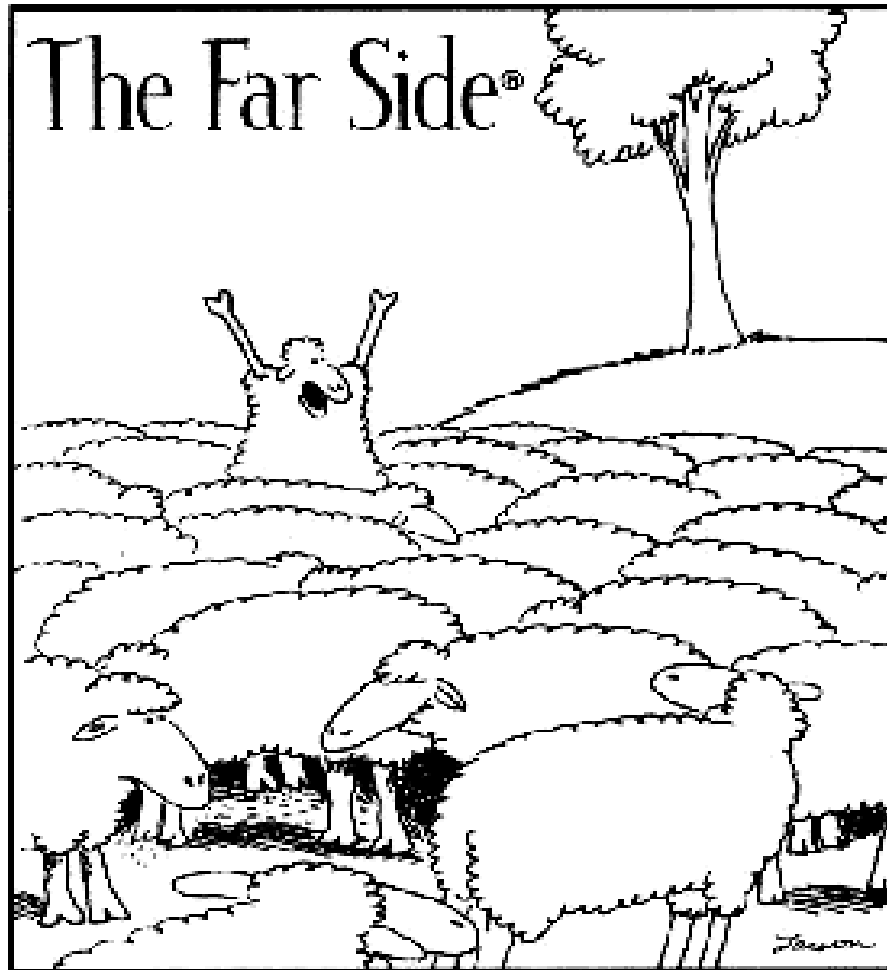
# Effective Board Members Guard Against It

- Be aware of the conditions that can lead a board into Groupthink
- Know the symptoms of it; learn to recognize it
- If it's happening, **SPEAK UP**; challenge the group
- Lead the board in taking the steps to avoid or overcome it



# Groupthink . . . .

What can **YOU** do about it?



"Wait! Wait! Listen to me! ...  
We don't *have* to be just sheep!"