

The dangers of groupthink

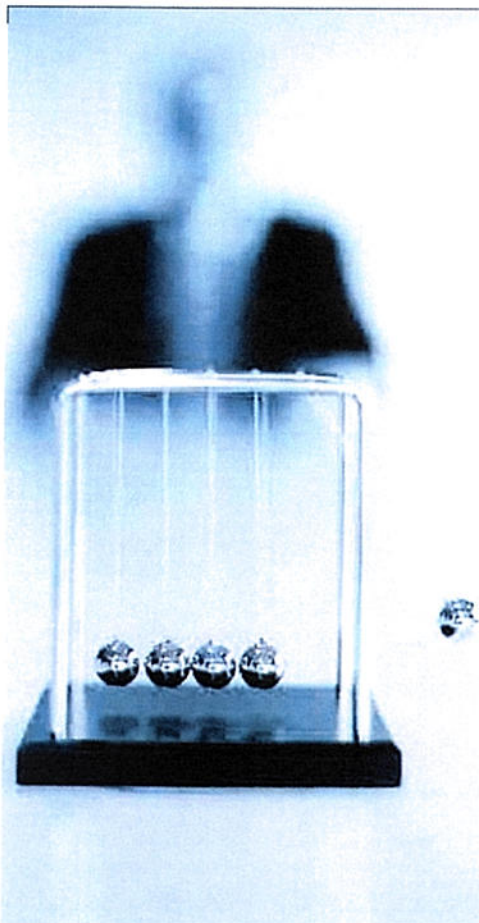
While infighting and dissent can ruin a team, unconscious compliance can cause different kinds of problems. Groupthink is a dangerous and stealthy risk to businesses that is challenged best by attention to bias. *James Gavin* investigates

The term "groupthink" was coined by Dr. Irving Janis, a professor of psychology at the University of California-Berkeley, after researching a series of leadership failures, from the Bay of Pigs invasion to the Vietnam War. It is defined as a mode of thinking where pressure for unanimity overwhelms members' motivation to appraise the alternative courses of action realistically.

Groupthink tends to manifest itself in organizations through the manufacture of a form of consent that stifles evaluation and challenge. With the campaign for boardroom diversity enjoying a headwind across the globe, awareness of the danger of groupthink has grown exponentially. »

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Dr. Katie Spearritt, Diversity Partners



» COLLECTIVE RESPONSIBILITY

Despite this increasing awareness, groupthink still has the power to afflict boards and audit committees. One reason for this is that it is a largely unconscious dynamic. As Dr. Katie Spearritt, CEO of Australia-based consultancy Diversity Partners, argues, it is often a comfortable experience for participants because there is little or no conflict around ideas – a solution is readily agreed upon, with minimal dissent. All sides feel validated on that basis, which has the effect of inuring them to the impending danger.

“Groupthink can happen around just about any type of decision-making – such as discussions related to safety, finance or people – and is most likely to occur in workplace cultures where challenge to the status quo or dominant leadership majority is rare,” says Spearritt.

Of course, achieving consensus on how to reach the firm’s broader goals remains important. But, alongside their shared aspirations, the board must also afford the space for different views to be taken into account.

“We’ve seen that leadership teams that are aware of the potential for groupthink regularly encourage employees to speak up, and emphasize the importance of seeking out different perspectives,” Spearritt adds.

SPEAKING UP

Boards and committees do have a number of options to minimize the possibility of groupthink taking root. The role of the chair is critical in boosting interaction between board members and in setting the tone of board deliberations. As Josh K. Jones, an assurance services professional at EY in the US, puts it: “There are ways that he or she can foster an environment where people feel more comfortable expressing contrary views. In the most effective audit committees, we have observed a variety of methods to encourage the mutual sharing of views.

“That includes, for example, the leader of the group taking the time to create that environment, being proactive and asking for different perspectives from people who might not always get their views heard.”

Executive search firm Tyzack Partners regularly advises on boardroom effectiveness reviews, which can be a useful tool to understand the board’s approach and style. “It can help to establish baseline guidance – for example, in the recruitment of non-executive directors,” says Robin Murray Brown, a partner in the firm.

The review needs to take place at least every two years, he adds, and there must be scope for people to raise issues confidentially. “For that reason, I would always recommend some kind of external expertise. The review’s results should be shared with the entire board, so that it doesn’t end up with the chairman setting his ‘secret police’ on directors.”

Diversity on the board can also help to avert groupthink, according to Peter Matthews, Chair of Global Learning at EY. “The idea of having a board that has people of the same educational background, the same career experiences, the same sex, the same ethnic background, means that you won’t get the variety of experiences that enable the best decision to be made,” he says. “Diversity on a board is a powerful way to avoid groupthink, as people’s minds won’t be programmed to think in the same way.” (For more on the potential benefits of appointing women to senior positions, see the feature on page 34.)

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This is a particularly pertinent issue in the Asia Pacific region, where research suggests a growing recognition that boards need to incorporate diversity considerations – especially with regard to gender – when appointing directors. “A lot of Asian companies are very homogenous, not only in gender but in terms of nationality,” says Alicia Yi, the Singapore-based Managing Director of Strategic Client Services for executive search firm Korn/Ferry International.

Reporting

INSIGHT: GROUPTHINK ON BOARD

» "Even the globally active ones often don't have foreign board members."

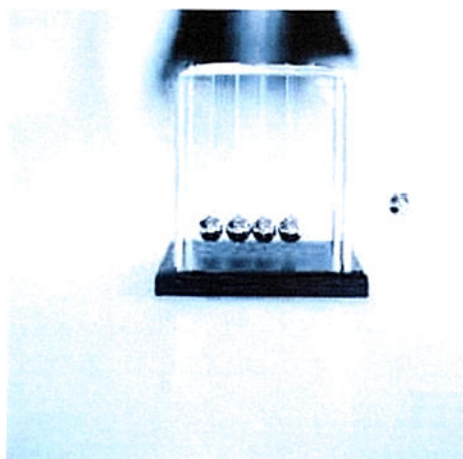
"As economic conditions become more complex and interdependent, these businesses need to think about how they appoint board members. Asian companies really need to look at composition in a structured manner."

Non-executive directors are an increasingly valuable source of diverse talent on a board. But here again, there is a tendency to negate the potential advantages by hiring experienced, familiar non-executive directors.

"Unquestionably, there are some very strong people who move from board to board, and shareholders like that," says Matthews. "But, rather than having six 60-year-old Western males, I believe my interests as a shareholder would be better reflected if I had people from a wider variety of backgrounds, even if that means that they don't have 15 years' experience on a board."

CHAMPIONING INDEPENDENCE

On the plus side, non-executive directors can provide senior expertise to review and challenge decisions – a role that is only improved by their informed detachment.



However, ensuring that a non-executive is truly independent can be a challenge in some parts of the world. Yi says that in Malaysia, there are guidelines on how many non-executive directors firms must have, but this is unusual in Asia Pacific. She explains that where family businesses dominate, the family consensus can overrule nominations and limit the checks and balances non-executives ought to provide.

In the UK, the Corporate Governance Code has been reviewed in recent years to reflect the expectations placed on the company's chairman to populate a balanced board.

"The concept behind the balanced board is that you don't have people who think the same way on every topic," explains Graham Durgan, Chairman of the Non-Executive Directors Association, and a non-executive on the boards of CRF Capital Partners and Thomas Murray (Network Management) Ltd. "Non-executive directors should be selected, at least in part, on their ability to challenge existing views."

When it comes to recruiting these individuals, firms may need to advertise openly, to overcome assumptions about where talent can or should be found. In current practice, non-executives are often chosen through recommendations from well-placed individuals or using executive search firms. Says Spearritt: "We see any increase in the transparency of the hiring process as a positive development, because it supports better oversight, which, in turn, lessens the risk of biased hiring decisions."

In fact, sheer capacity constraints are pushing firms to look beyond the immediate talent pool. "One of the conversations we have with clients is that not enough names are being yielded, because the really good candidates are people who are already touching the limits of what they can commit to," says Murray Brown.



» ARE SMALL BOARDS BETTER?

Board size and structure can also play a critical role in promoting a culture of openness and discussion. The UK Government's Walker Report on corporate governance in the banking sector, published in 2009, found that larger boards tend to suffer from the phenomena of passive free-riding, dislocation and groupthink, reducing their ability to monitor senior management effectively and govern the business. When boards are composed of more than 12 people, it argued, a number of psychological phenomena are compromised, including span of attention, the ability to deal with complexity, the ability to maintain effective interpersonal relationships, and motivation.

However, groupthink can afflict any board. "In my experience, it's not related to size alone," says Ruth Picker, Leader of EY's Asia-Pacific Risk Management practice. "Diversity and having a good chair are critical, as is having the courage to simply come out and say, 'I don't agree with what Joe Bloggs said.'"

Not only that, but groupthink can take root at any point in the organization. "It's not just boards and audit committees," Picker says. "If you think about what happened during the financial crisis, that was groupthink on a huge scale – so many people all somehow believing that the property market was never going to fall. Irrational market behavior is groupthink writ large."

Beth Brooke, Global Vice Chair of Public Policy for EY, agrees: "On the heels of the financial crisis, the need for diversity of thought at the board level has never been so clear," she says. "We have an opportunity – and a responsibility – to learn from those mistakes and to guard against the groupthink that can occur at the board level."

"We can only achieve this if board and company leaders believe and embrace something fundamental: that difference matters. Building a diverse and inclusive board requires focusing on a range of competencies, not consistency, in recruiting members, while remaining transparent about, and accountable to, your diversity targets," Brooke concludes. ■