THE BOARD MINDSET™

The vital attribute of exceptional boards

HOW BOARDS CAN AVOID THE INSIDIOUS KNOWLEDGE TRAP

Despite the rapidly expanding literature in behavioral economics and the popularity of some of its well-known concepts, it is surprisingly tricky to put conclusions from research into practical use. As the behavioral economic theories suggest, this challenge exists because decisions involve more than knowledge and rational thoughts. Instead, interpersonal and cultural context and emotion play a role, though it's difficult for some to accept that reality.

Board members are sometimes incredibly resistant to the idea that their judgments are anything other than rational and independent.

Aaron, an experienced board member who specialized in risk, asserted that emotion had zero to do with his decisions. Yet, he was so enraged at me for discussing the effects of emotion and social context, he stood up and, with a red face and at high volume, yelled, "I am not emotional!"

Despite Aaron's superior intellect, he had trouble learning anything if he deemed it irrelevant. There were two problems with Aaron's posture: First, he thought he knew everything. Second, his defensiveness was so powerful; he couldn't participate in discussions of ideas other than his own nor listen to anyone who disagreed with him. So, it's no surprise that Aaron was ill-suited to serve on a board. After too long a time, the board leadership finally removed Aaron, to the relief of many.

People like Aaron are not the norm, but their worst characteristics are often more apparent when their beliefs are challenged. Unfortunately, this makes it difficult for them to learn because learning isn't purely adding to what we already know. Yet, it can be surprisingly difficult to understand something new when it challenges what we already believe because it could mean letting go of another idea. This unconscious motivation to hold on can slow down learning, even in the brightest person.

People can't force unconscious processes to the forefront, nor should they. It would be inefficient to every decision because not every situation requires it. However, when decisions involve significant risk, it is possible to use frameworks that can help. One such framework is "Outside-in and Inside-out."

Outside-in asks what outsiders think of your business. For example, one executive I worked with, Valerie, a banker, said, "Our customers don't love us, but we seem to think we know what we're doing. My team says all the right things, and I believe their intentions are good." However, she admitted that she was annoyed by some people on her team who repeated phrases such as "customer experience" but didn't understand it. She called this "The ontology of the parrot." It would be funny if she weren't right.

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Valerie realized she needed to understand the perspective of people outside her organization. So, she commissioned a study and included people within the bank but outside her team and customers and suppliers. The study results gave her an outside-in view based on data that influenced her thinking and that of the CEO. As a result, they took a new idea to the board for advice and counsel, enabling the board and leadership team to come together on a significant change.

Inside-out asks how you think others see you and your team. While feedback was gathered from outsiders, a similar process was launched for those inside her organization. The results showed that people didn't think they were doing an excellent job for several reasons. The top three reasons given were scarce resources, inadequate technology, and inconsistent management.

Once Valerie had this information, she needed to use it. Instead of spinning the data, she decided to take the opportunity to build a plan to implement the strategic shift she and the CEO felt was right. The discussion with the board was about the strategic change and a framework for how it could be done. While avoiding a tactical discussion, Valerie was able to get good feedback and advice from the directors about the plan.

Valerie's approach proved successful, leading to increased revenue, margin, customer satisfaction, and improvements in accountability and innovation. When her colleagues wanted to know what she'd done, she shared the idea of looking at a situation from multiple angles and using different types of data to understand.

People in any role, even directors, can over-rely on information that is no longer useful, without any intention or awareness. This invisible trap of knowledge leads to poor decisions and sometimes deadly mistakes. The best boards do two things to minimize the chance of errors. First, they recognize their fallibility. Second, they utilize frameworks such as the "outside-in/inside-out" method to help them gather information, even if they think they already know the answer.

Helping Define Your Company's Future Success

We can help you formulate a strategy that works:

- Defines the choices a company is making about who is and who is not a customer
- Doesn't serve as a rationalization for budgets
- Challenges assumptions
- Seeks to reduce risk, not avoid it
- Serves as a framework in which adjustments are expected and can be accommodated

We advise on any unaddressed issues to help the board and the company move forward. If you have any questions about The Board Mindset, visit www.theboardmindset.com or contact us.