

SIX DECISION-MAKING TRAPS DIRECTORS CAN AVOID

Boards can frequently trace flawed decisions to the process directors used in making the decision: unclear objectives, wrong information, disproportionately weighting options, etc. Often, however, the fault lies not with the process but with the mindset of those making decisions. When directors think about their decision-making in traditional ways, too often they fall through one of these decision-making traps:

GROUPTHINK TRAP

In 1972, Irving Janis, a social psychologist, first identified groupthink as a phenomenon that occurs when decision-makers accept proposals without scrutiny, suppress opposing thoughts, or limit analysis and disagreement. Historians often blame groupthink for such fiascoes as Pearl Harbor, the Bay of Pigs invasion, the Vietnam War, the Watergate break-in, and the Challenger disaster. Groupthink causes a board to make an incomplete examination of the data and the available options, which can lead directors to a simplistic solution to a complex problem.

In all cases, the chance to rethink a decision occurs when the board sets a second-chance meeting. Directors can then avoid feeling “under the gun” by agreeing they will make no final decision during the first meeting. Time and distance from the information will allow directors to avoid impulsiveness and quick-fix methodology.

COMPLEXITY TRAP

The idea that more is better, and that activity justifies existence pervades many boards. Creating stacks of papers and millions of details

does not prove competence; it shows an inability to appreciate Occam’s razor.

The simplest explanation that covers all the facts will usually offer the best solution, but uncovering it may not be quite so easy. People complicate decisions because they can’t separate the critical from unimportant elements. They lump together the “must haves” with the “wants” and even throw in some “nice to haves.” They introduce ways to execute a decision before they clarify the goal, muddy the waters by trying to make all aspects of the situation top priority, and skirt around the periphery of the problem instead of cutting to the core of it. Directors can help evade these enemies by shaving away all but the simplest representation of the issue and by reducing labor intensity to concentrate on the problem.

When faced with significant decisions, one of the board’s primary responsibilities will be to reduce complexity by framing the issues. Like a frame around a picture, this can determine how we view a situation and how we interpret it. Often, we don’t notice the frame of a picture, but it enhances the artwork it surrounds. It calls attention to the artwork and separates it from the other objects in the room.

Similarly, in decision-making, a frame creates a mental border that encloses an aspect of a situation, to outline its key elements and create a structure for understanding it. Mental frames help us navigate the complex world, so we can avoid solving the wrong problem or solving the right problem in the wrong way. Our personal frames form the lenses through which we view

the world. Education, experience, expectations, and biases shape and define our frames, just as the collective perceptions of a board's members will mold theirs.

People who understand the power of framing also know its capacity to exert influence. They have learned that establishing the framework within which others will view the decision frequently determines the outcome. Directors have both the right and responsibility to shape outcomes. Even if they can't eradicate all the distortions ingrained in their thinking and that of others, they can build tests into their decision-making process and improve the quality of choices. Effective framing offers one way to do that.

STATUS QUO TRAP

Fear of failure, rejection, change, or loss of control—all these unfounded fears often cause decision makers to consider the wrong kinds of information or to rely too heavily on the status quo. According to psychological research, the reason so many of us cling to the status quo lies deep within our psyches. In a desire to protect our egos, we resist taking action that may also involve responsibility, blame, and regret. Doing nothing and sticking with the status quo represents a safer course of action. Certainly, this should always be considered a viable option. But adhering to it out of fear will limit opportunities and compromise effective decision-making.

Make sure the status quo represents one and only one option. Then ask the key question: "If we weren't already doing this, would we choose this alternative?"

Often, we exaggerate the effort that selecting something else would entail, or we magnify the desirability of staying the course over time, forgetting that the future may well present

something different. Finally, when we face a multitude of various options, rather than carefully evaluating each, we give into the temptation to stick with the traditional approach.

ANCHORING TRAP

A pernicious mental phenomenon related to over-reliance on the status quo is known as *anchoring*. This *cognitive bias* describes the common human tendency to rely too heavily, or to "anchor," on one piece of information when making decisions. It occurs when people place too much importance on one aspect of an event, causing an error in accurately predicting the feasibility of other options.

The mind gives disproportionate weight to the first information it receives, to initial impressions, and preliminary value judgments. Then, as we adjust our thinking to account for other elements of the circumstance, we tend to defer to these original reactions. Once someone sets the anchor, we will usually have a bias toward that perception.

Since most people are better at *relative* than absolute or creative thinking, we tend to base estimates and decisions on our known anchors or familiar positions, then adjust decisions relative to this starting point. To avoid falling into the anchoring trap, board leaders or directors with a great deal of influence should avoid revealing too much information. Once they give their opinions, others will tend to defer too easily and echo ideas. When this happens, directors lose the opportunity to think about the problem from a variety of perspectives.

To dodge the anchoring trap and seek the opinions of others, frame the issue in a non-evaluative way and be alert to language or perspectives that tend to anchor thinking in one arena. Awareness of how anchoring influences each of us defines the first step in sidestepping its effects.

SUNK-COST TRAP

Adherence to the status quo and anchoring closely align with another decision-making trap: the predisposition not to recognize sunk costs. The sunk-cost fallacy describes the tendency

to throw good money after bad. Just because the company has already spent money or other resources on something doesn't mean they should continue spending resources on it. Sometimes the opposite holds true, yet because of an illogical attachment to our previous decisions, the more we spend on something, the less we're willing to let it go, and the more we magnify its merits.

Sunk costs represent unrecoverable past expenditures that should not normally be considered when determining whether to continue a project or abandon it. They cannot recover the costs either way. However, in an attempt to justify past choices, we want to stay the course we once set. Rationally, we may realize the sunk costs aren't relevant to current decision-making, but they prey on logic and lead us to inappropriate choices.

Board leaders can steer directors away from the sunk-cost rationale by creating a safe haven for discussion and admission of mistakes. Sometimes leaders inadvertently reinforce the sunk cost trap by penalizing those who made decisions that didn't work. Instead of admitting the mistake and trying to move on, often the decision-maker will prolong a project in a vain attempt to buy time, improve the situation, or avoid detection.

INFERENCE AND JUDGMENT TRAP

Facts are friends. When we face an unfamiliar or complicated decision, verifiable evidence becomes our most trusted ally, but also an ally many senior leaders reject. Instead of steadfastly pushing for definitive information, they settle for the data others choose to present, seek information that corroborates what they already think, and dismiss information that contradicts their biases or previous experience. When guesswork or probabilities guide decisions, or allow them to influence the decisions of others, directors fall into the trap of too little information or the wrong kind of information.

Facts may be friends, but they are scarce allies. Inferences and judgments, which can be more influential and pervasive, tend to dominate discussions and drive decisions. To the untrained ear, the inference can present itself convincingly

as a fact. Inferences represent the conclusion one deduces—sometimes based on observed information, sometimes not. Frequently, inferences have their origin in fact, but a willingness to go beyond definitive data into the sphere of supposition and conjecture separates the fact from the inference.

Similarly, judgments go beyond what one can observe and prove to evaluate information. Judgments offer a perspective—a good/bad coloring of the data. Personal reactions, or judgments, vary too.

CONCLUSION

Senior leaders can't escape the trap that will draw them to the information that supports their own values and experience. However, when they discipline themselves and the other directors to gather more data, check for reliability, and examine all information with equal rigor, they take the critical steps for improving leadership and decision-making, and they take off the leadership blinders that afflict too many boards.

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](#).