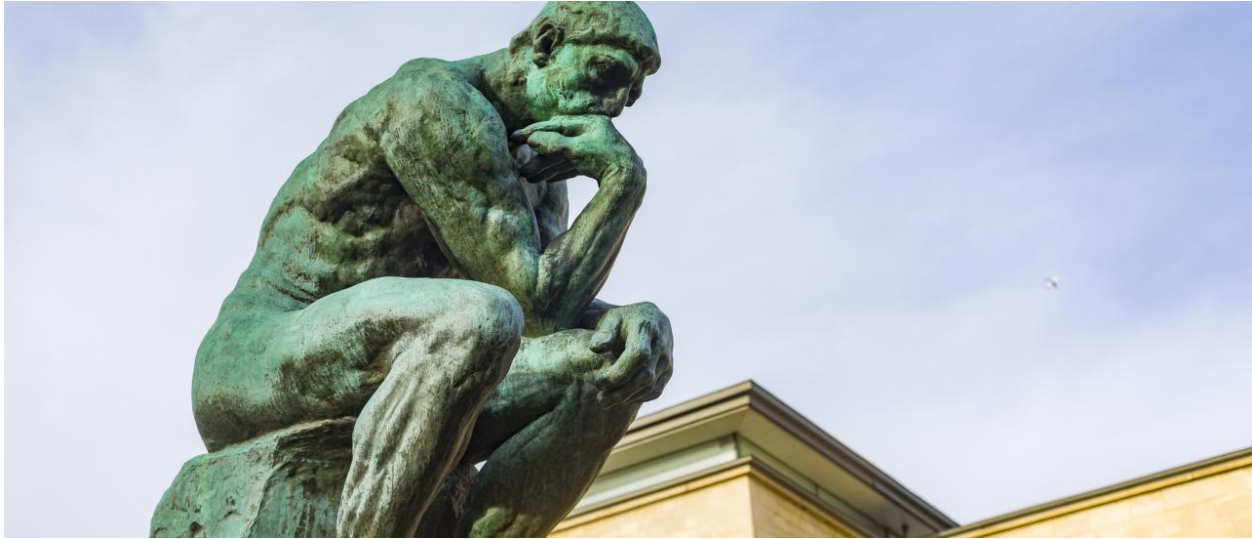




Intelligent Boards Know Their Limits



By Alan Zeller , INSEAD alumnus (MBA '09J and IDP-C), Anil Gaba , INSEAD Professor of Decision Sciences, and Ludo Van der Heyden , INSEAD Professor of Technology and Operations Management

Understanding mental biases and the extent of their own knowledge can help board directors make effective decisions.

The advent of the internet has produced a seemingly infinite amount of data and information. In order to deal with the information overload, knowledge managers have organised the data available into meaningful and manageable clusters. Today, the real challenge for decision makers is how to turn knowledge into insight. Board members are overloaded with information and are attempting to make the right decision in a short period of time. For the decision process to be effective, board members need to understand how their brains work.

Tony Buzan, the inventor of Mind Mapping, first introduced the concept of knowledge managers in “The Revolutions of the Mind”. He also described how the world has gone through multiple revolutions of the mind since the dawn of civilization and how each one accelerated the change in the way we work, do business, think and live. He argues that after the *Information Age* and the *Knowledge Age*, we are now in the *Age of Intelligence*, where the manager of the future will need to manage mind-sets, including his or her own. From an evolutionary perspective, we are the result of thousands of years of decisions and selections of “fit for purpose” with our environment in an ongoing “struggle for survival”. Understanding how we are programmed to make decisions and how our decision making no longer fits our fast changing times is the first step boards and directors can take in their quest for better decision making in today’s environment.

We can only do so much

The nature of board roles and the setting in which they assume their role forces directors to filter information, simplify data, decide what to focus on, what to put aside, what to remember, what to erase, while continuing to act in an ever faster environment. They can only do so using heuristics, mental shortcuts and simple efficient rules to form judgment and make decisions. This is where labels and metaphors play a very important role. For the most part, these intuitive mental shortcuts are useful because they allow for quick information processing and problem solving. However, at times, these mental routines also lead us to make incorrect assessments of particular situations and reach incorrect conclusions, with sometimes disastrous consequences. These cognitive biases are increasingly recognised as fundamental to board work, as they often lie at the root of value-destroying decisions and strategies.

The literature on human judgement and decision science has grown tremendously over the last decades and is now widely available, including in airport shops. *Thinking Fast and Slow* by Daniel Kahneman, *Dance with Chance: Making Luck Work for You* by Spyros Makridakis, Robin Hogarth, and Anil Gaba, and *Predictably Irrational* by Dan Ariely are examples of books that explain how our brain works and how it affects the quality of our decisions. The biases described in these books that are most readily observed in board meetings are confirmation bias (the tendency to interpret new evidence as confirmation of one's existing beliefs), hindsight bias (an inclination, after an event has occurred, to see the event as having been

predictable, when it was not) and loss aversion effect (losses loom larger than gains, driving boards to take less risk and leave value “on the table”).

Among all the biases affecting quality of judgement and decision making at board level, the most common one is certainly the overconfidence effect. All the above authors argue that experts respected for their knowledge often make the mistake of holding their beliefs with utter conviction, without sufficiently considering whether the available information justified the depth of that conviction. What is worse is that this apparent and unfounded certainty precisely meets the needs of audiences, who all too eager for reassurance in the face of real ambiguity and legitimate concern. These authors all conclude that good decision making depends on having good primary knowledge (what you know first-hand) and good meta-knowledge (knowledge about knowledge, e.g. limits, biases, or outright non-truths, and need for good process).

Gaining knowledge of knowledge

With ever increasing information available, it is paradoxical that metacognitive competence might be one of the most important skills that Directors need to acquire and develop if they are to fulfil their fiduciary duty of care towards their company in the new digital world. There are a number of ways for doing so. It is now proven that cognitive biases can be reduced through regular testing in the form of checking one’s score on a set of “test questions”, for example, an online survey evaluating judgment at INSEAD which also provides benchmarking of individuals and groups against other populations of interest. Such self-awareness and regular reflection can be further supported by incorporating nudges in the judgment processes, formally or informally, that further reduce susceptibility to biases. Other sophisticated means have also been developed such as the revelation of unconscious and hidden biases that make us prone to mental associations and play tricks with our views on reality. The Association Test offered by Harvard’s [Project Implicit](#) is readily available and could be considered a must for directors today.

Directors can also leverage the group setting of the board to their benefit by using the opinions and beliefs of various members as distinct “anchors” for the examination of an issue, and particularly for revealing different facets of a question or various options to address the issue. In that regard, making it a habit to look for disconfirming evidence is a must for boards in the

Intelligence Age. Playing the devil's advocate and framing the problem through different angles will reduce the effect of the cognitive distortions that lead groups astray.

Boards are generally very informed and knowledgeable as they are composed of successful experts, experienced in their respective fields. However, this also presents the perfect setting for a wrong decision if boards do not seek "intelligence" by inquiring further and testing the so-called experts. It is now recognised that the practice of referring to "the expert on the board" is very risky. In order to effectively turn information and knowledge into insight, boards must be intelligent. They must learn to think about thinking and must know about knowing.

Expertise, diversity and inquiry are key practices that make a board intelligent. The members of such a board collectively reflect on how they make judgements and decisions, and practice "score keeping" – developing an understanding of how often and why they have been wrong in the past. In this way board members become aware of their own biases and become more effective in addressing them. These boards also embrace diversity and feedback as essential practices for developing their intelligence.

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