Unpacking board culture:

How behavioral psychology might explain what's holding boards back

pwc

Boards are focused on composition issues like diversity and subject matter expertise. But are they forgetting about the **human element**?

Introduction

The mythology of corporate boards goes something like this: put a group of high-achieving, experienced, strategic-minded, and diverse individuals in a room together. Add commitment and a lot of hard work. What you get is a top-notch board with a healthy culture and effective oversight. In practice, no boardroom culture is perfect. Every director has witnessed derailed discussions, dismissed opinions, side conversations, directors who dominate, and those who seem to be biting their tongue.

No boardroom has a perfect culture. Derailed discussions, dismissed opinions, side conversations, and dominating personalities pop up in every boardroom. Why?

Boards are spending a great deal of time thinking about composition issues like director expertise and diversity. But what they might be missing is the importance of group dynamics—the human element. After all, each director brings his or her own habits, preferences, past experiences, and individual biases. These all impact the board's culture and decision-making.

Boards can't achieve a truly strong board culture without taking these dynamics into account. Here, we lay out how boards can spot the issues that may be holding them back. This requires directors to step back and ask some frank questions like: which topics get traction in the boardroom and which get ignored? Who is listened to, and who is dismissed? Why? We give you warning signs for spotting troublesome behavior. We also provide practical tools that your board (and C-suite) can use to improve boardroom culture and elevate the board's performance.

About bias

Every person has biases. Biases can help our brains order information and make decisions. But behavioral psychology also tells us that it influences the way we judge ourselves and others.

In a group setting, these biases can cause us to over or undervalue certain people around the table, or certain ideas. We might give too much credit to one opinion, while dismissing another.

Social biases are those factors that may come out in a group setting. These biases are the unseen or underlying elements that operate underneath the surface. It's the undercurrent that pushes collective decisions in a certain direction. They can also influence collegiality, the ability to feel "safe" to speak out, and the ability to nurture diversity of thought.

Common boardroom biases

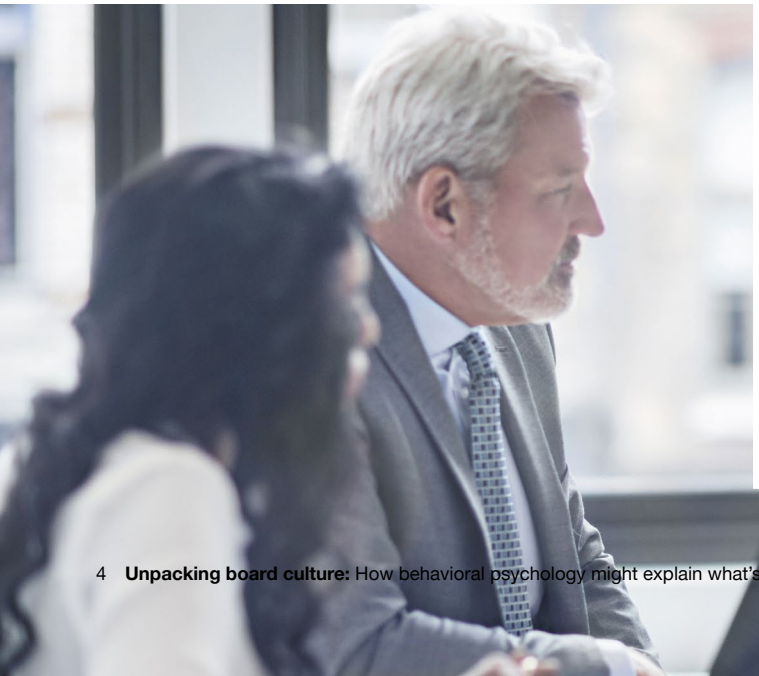
We have identified four dynamics that commonly affect the boardroom: deference to authority, groupthink, a preference for the status quo, and confirmation bias. We offer warning signs to spot these issues and tools to address them.

Authority bias

Groupthink

Status quo bias

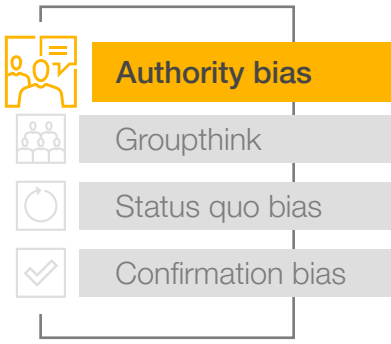
Confirmation bias

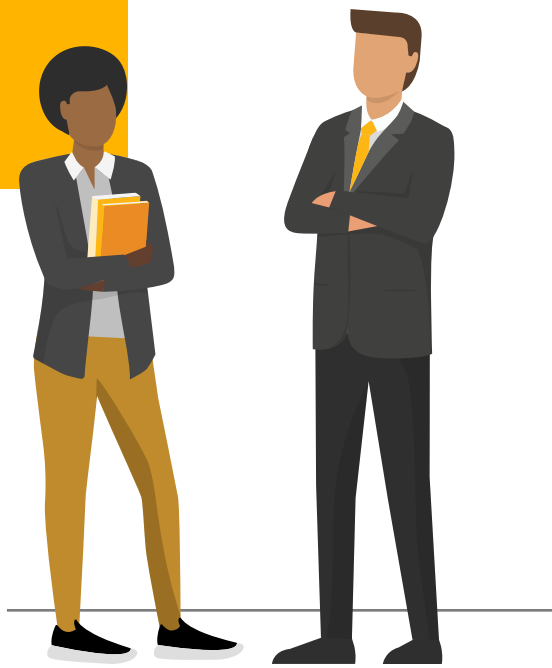


“They’re the expert!”

Jill was the CISO at a large multinational corporation. When it came to cyber issues, she saw it all. Whenever anything related to cybersecurity, or our digital strategy, comes up during a meeting, others defer to Jill. She has the first—and the last—word.

Bob was a longtime CEO of a major company and is the independent chair of the board. He kicks off most agenda items and leads discussions. Bob is always a strong presence in the room; even when he’s not talking, board members can tell what he is thinking.





The boardroom needs experts. Directors are, of course, recruited for their skill sets and expertise. But in some cases, boards may rely too much on one director’s experience or opinion. They can become too influenced by that opinion, dismissing what others have to say, or abdicating responsibility. Directors who are seen as an expert in one area might not contribute much to other discussions. Boards might find that some directors suck up all the oxygen in the room, while others are rarely heard from. Or the CEO may hold too much power over the board, such that the board is unable to effectively push back.

This dynamic is not just about respecting expertise. It’s also about a perceived power structure within the board. For example, the board may be more likely to prioritize the views of its male members, long-tenured directors, or those with a commanding stature or tone of voice.

As part of this, boards can fall into the trap of waiting to hear from these authorities first, or always giving them the last word. They can fail to provide an important check and balance against the “expert.” And directors might be personally reluctant to push back against the prevailing view.

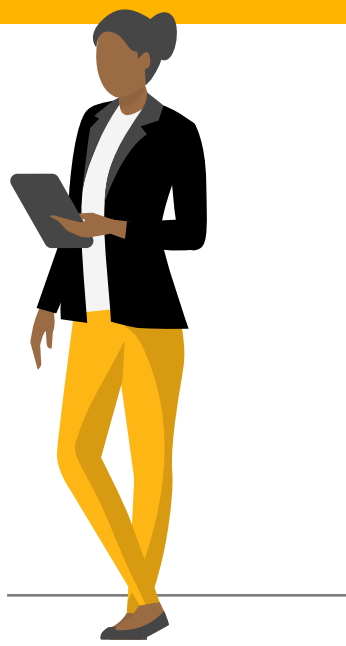
Signs that that your board might have an authority bias problem

- The same director regularly has the final word, no matter the topic.
- Directors engage in side conversations during or between meetings, rather than airing their views out loud.
- The board regularly defers to the views of the authority figure—either as a subject matter expert or because of their board leadership role.
- Directors save their concerns for executive session, and leave it to the lead director who may or may not communicate those issues back to the CEO.

Tips to minimize authority bias

- Board leadership can solicit views from each director in turn. This ensures that all directors have a voice on an issue—and also that the "expert" speaks up in other areas as well.
- Offer deep board education opportunities in specialized areas to prevent the board from relying too much on one director's experience.
- Have board leadership purposely withhold opinions until the end of the discussion. Alternatively, if the same person always has the last word, ask them to contribute first so their idea can be discussed.
- Ask each director to offer thoughts or ideas at the beginning of the meeting on what they would like to cover, or, at the end, about items that were not captured during the meeting.

Start a discussion with board leadership or with management about how these tips can be incorporated into board practices.



The special case of the CEO chair

Directors who serve on boards where the CEO serves as chair may face a particular version of authority bias. The CEO chair's position is magnified through that executive role, particularly if the board doesn't have a lead independent director, or if that person is less vocal.

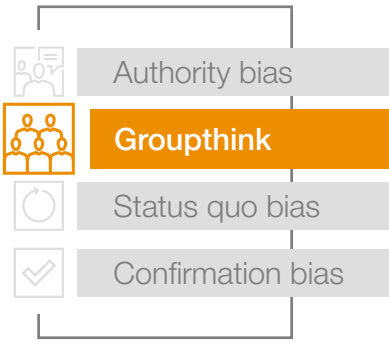
This effect can stymie the board. In our *Annual Corporate Directors Survey,* 43% of directors on boards with an executive chair said it was difficult to voice a dissenting view—compared to just 35% of directors on boards with an independent or non-executive chair.[1]

To address the issue, examine the role of executive sessions. These sessions, held without executive directors, should close every board meeting. And keep an eye on the types of concerns that get raised. Some airing of new concerns is appropriate, but if directors are routinely "saving" issues for executive session, board leadership should dive deeper into why board members are not comfortable enough to bring it up during the full board meeting.

1. PwC, *2020 Annual Corporate Directors Survey*, September 2020.

“Great minds think alike”

The company is considering launching a significant new product. Going into it, many of the directors had concerns. Some had privately discussed the issue before the meeting. Many were worried about how the discussion would go. One director started to share her concerns, but the CEO quickly moved on. Over the course of the meeting, more and more heads started to nod along. No parts of the strategy around this product changed, but now the entire board appears supportive, including the director who had her concerns dismissed.



Boards can only be effective if they have the ability to come to a consensus. No one wants to feel that the board is made up of factions with irreconcilable differences. Even when the board undergoes a shake-up, like the addition of an activist director, they tend to quickly reach a new equilibrium.

But while consensus-building is important, boards may be too inclined to seek harmony or conformity. This can lead to groupthink, where dissenting views are not welcomed or entertained. In fact, while most boards work to solicit a range of views and come to a consensus on key issues, 36% of directors say it is difficult to voice a dissenting view on at least one topic in the boardroom.[2] This can point to dysfunctional decision-making as the board members avoid making waves. In fact, the most common reason that directors cite for stifled dissent on their boards is the desire to maintain collegiality among their peers.

Groupthink is also magnified when the board is not effectively educated on a topic, or does not have access to the right information. Board materials may come too late for members to have any real time to review and reflect on the information before a meeting. In that case, directors are more likely to go along with the group’s decisions. Or management may gloss over complicated topics, with directors feeling unable to question specifics.

The impact of meeting virtually

Virtual board meetings may magnify groupthink. In person, a director might be able to quietly float an issue, or take a member of management aside to ask a question. But these types of informal communications are much harder virtually. Twenty-five percent (25%) of directors say that virtual meetings have a negative impact on the ability to voice dissent, versus just 4% who see a positive impact.[3]

Virtual meetings may also take a toll on board culture more generally. While more than half of directors (52%) say they make meetings more efficient, an even greater percentage (61%) say they have a negative impact on board culture.[4]

2. PwC, *2020 Annual Corporate Directors Survey,* September 2020.
3. PwC, *2021 Annual Corporate Directors Survey*, October 2021.
4. PwC, *2021 Annual Corporate Directors Survey*, October 2021.

Signs that your board might have a groupthink problem

- Topics that could be controversial are avoided or dealt with quickly, and meetings are dominated by directors nodding in agreement.
- Directors who question the prevailing view are marginalized, criticized, or ignored. In the worst case scenario, they may be asked to not stand for re-election—sending a message that dissent is not encouraged.
- Meetings are set up in presentation format, with little time set aside for discussion. The board infrequently pushes back on management's assumptions or asks probing questions.
- Board materials are delivered with little time to review, or don't highlight key issues.
- Cliques form on the board, and directors share privately what they do not offer during meetings.

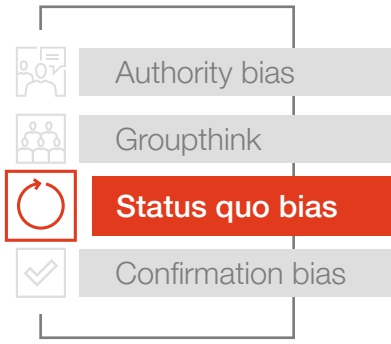
Tips to minimize groupthink

- Leverage the board's assessment process. Seek input during individual interviews or questionnaires, when directors may feel more open, on whether dissent is discouraged. If particular directors are a problem, board leadership should have the difficult conversation about how to change the dynamic.
- Bring in outside advisors to share a new or dissenting view on issues, and shake up discussions.
- Discourage side conversations between directors outside of meetings, as they relate to the business. When business matters are discussed, bring that conversation back to the boardroom to seek input from the whole board.
- On controversial issues, solicit views from each director.
- Recruit directors who bring a true diversity of viewpoints to the boardroom.
- Push management for the materials directors need, when they need them. Ensure the materials are highlighting key issues and discussion points.
- When possible, conduct meetings in person or over video conference, not telephone, to maximize director focus on the issue at hand.
- Consider whether the current board size is optimal. With too many members, directors may be more likely to give in to groupthink.

“If it ain’t broke, don’t fix it”

A long-established company is seen as a leader in its industry. Year after year, its market share has grown. Recently, a new player has come on the scene with a completely different business model that relies on artificial intelligence. Its client base is small and while they are growing fairly quickly, they don’t appear to be a significant threat. The board hears about the disruptor and ways its company could incorporate some of those ideas. But given their company’s market dominance, the board dismisses early suggestions to augment or shift away from a proven strategy.

The nominating/governance committee has started to think about what new skills the board might want in the future, but the board has not recruited a new director in several years—even though some of the board members’ contributions have been waning in recent years. Some members of the committee express concern that bringing on new directors may dampen the board’s collegiality.



Change can be scary and many people resist it. If things are working, we want to keep them the way they are. Boards, too, often prefer a set of established norms, and value that which is familiar. They may overvalue what they know and be reluctant to pursue initiatives involving substantial change, simply because it brings too many risks of the unknown.

Our research bears this out both in how boards view their own composition, as well as how they evaluate new ideas. For example, boards are also reluctant to embrace rules or laws that would limit their discretion. While most directors think that diversity in the boardroom is beneficial, they do not support laws that would require boards to make changes.[5] They prefer to implement changes to their practices slowly over time.

Boards may also be reluctant to embrace new strategies and ideas. While individually they may be creative thinkers, as a group they may be more likely to want to stick with the status quo. This can also lead to boards and companies under-investing in long-term projects like research and development, which may not lead to returns for some time.

A related problem is the “sunk cost” bias—the idea that the board has devoted too much time and effort to an idea or topic to walk away. For example, a company may have spent months pursuing and preparing for an M&A transaction. The board heard frequent updates, and perhaps even formed a special committee to handle the details. Along the way, perhaps the business environment shifted, diligence uncovered unexpected issues, or legal issues required the company to adjust the structure. The deal simply may not make sense anymore, but management teams and boards with so much time and work invested may be reluctant to walk away.

5. PwC, *2021 Annual Corporate Directors Survey,* October 2021.

Signs that your board may have a status quo bias problem

- Board members advocate for a consistent strategy despite change in circumstances or key metrics. The board may be reluctant to support entering into new markets or to divest lines of business that no longer make sense.
- The nominating/governance committee avoids long-term succession planning for board members, addressing only immediate needs prompted by director retirements.
- Board turnover lags behind peer boards, or the board has an inordinate number of long-serving directors.
- The board doesn't rotate committee chairs periodically.
- Management, especially the CEO, is entrenched at the company. The board does not focus on a C-suite succession plan.
- The board doesn't receive educational opportunities on emerging technologies or other new areas.
- The board rationalizes or accepts subpar company performance by viewing results as hurdles, as opposed to harbingers of systemic changes.

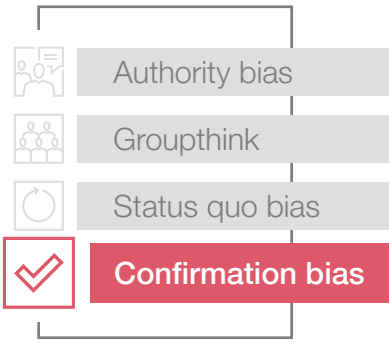
Tips to minimize status quo bias

- Incorporate "If you were a competitor..." activity into strategy development sessions, which includes answering the following three questions: What would they hope you do? What would they fear that you do? How would they respond if you did what they feared?
- Make structural changes to board deliberations. Bring in outside experts, revamp the agenda of a strategic offsite meeting, take a board trip to Silicon Valley or other center of innovation.
- Take a fresh look at board materials. Ask advisors and other contributors to suggest revisions and recommend best practices.
- Use the board assessment process to identify ways the board might benefit from refreshment. Having a static group of directors for a long period of time may contribute to groupthink.
- Ask management to conduct a pre-mortem exercise, where the team imagines that it is in the future and the strategy did not work—and must come up with all of the reasons why it did not work.

"I knew it!"

The company recently closed on its largest acquisition ever, and the board is ecstatic. The integration has been difficult, and reports from management show mixed results: projected profits look promising, but employee attrition is high and customer complaints are up. Post-transaction board discussions focus on the success of the deal, based on the positive results—while skimming over the negative developments.

The company has been crafting plans to implement a new data system. It took years to finally come to a consensus to prioritize the investment. The project finally gets off the ground, but runs into some budget problems and delays. The head of the initiative assures the board that the hiccups are minor and the project will pay off in the end, but the one board member who was consistently against the project uses the development as evidence that the project was a bad idea from the start.



We all have a tendency to subconsciously seek out and overvalue evidence that confirms our own beliefs, while undervaluing evidence that challenges it. Directors are no different, and boardrooms fall into this same trap of confirmation bias that we all see every day. This makes objective decision-making a challenge.

Confirmation bias can lead to overconfidence in the outcome that directors are hoping for. If the company has had success in the past, the board may expect that success will continue, and overvalue the evidence that supports it. The board members that were strongly in favor of a project, or a new hire, or a new strategy, can find glimmers of positivity in almost any report from management. But confirmation bias isn't always about overconfidence—it can also confirm a negative view. The director who was against the project from the start may, in the same report, see only the bad news.

This bias can also come through in other ways. For example, in 2019, directors shared an extremely positive view of their companies' likelihood for future growth. Ninety percent (90%) of directors told us that they were confident about their company's prospects for growth over the next twelve months. An even higher percentage (93%) were confident in growth over the next three years.[6] At the time, of course, there was no evidence that a global pandemic would have unprecedented widespread economic impacts. But there were hints that the US was headed toward a downturn. Hints that directors may have underestimated, as they focused on evidence that the future was rosy.

And because people tend to overvalue the opinion of those who agree with them, directors may have a hard time pushing against the tide. Encouraging diversity of thought can help. When boards focus on finding directors who can "fit in" they are often looking for directors who share the same viewpoints and agree on key issues. But this only strengthens the board's confirmation bias, as facts that support shared opinions are given more weight. What they are missing, and what can really benefit a boardroom, is rigorous debate among directors with different views. By having people in the room that hold different views or come at issues from different perspectives, the board may be better able to hear and understand the full picture.

6. PwC, *2019 Annual Corporate Directors Survey,* October 2019.

Signs that your board may have a confirmation bias problem

- Board members use analogies to their past experiences as support for their decisions, as opposed to insights, evidence, and facts.
- Directors seem to have made up their minds before a topic is even discussed.
- Members of the board are bounding toward the launch of a program, initiative, deal, or strategy without a concerted effort to focus on potential uncertainties.
- Many of the board members share similar pasts, or similar worldviews.
- The board seems unwilling to have serious discussions about management teams that are not meeting their goals, or about changing up leadership to address the problem.

Tips to minimize a confirmation bias problem

- Have management present strategies that they considered but dismissed. There could be useful elements within those strategies.
- Recruit a director who will challenge the board's preconceived notions. Sometimes a director from a completely different industry can offer a fresh look at old problems, and ask big questions that may not have occurred to those with long experience in the area.
- When confronting a major strategic move, hire one outside advisor to present arguments in favor of the idea, and another to present arguments against it.
- Ask directors to rotate presenting hypothetical dissenting views. Even if the director does not hold that view, it can change the shape of the discussion.
- Ask internal audit and other support functions to provide strong, data-based challenges to the prevailing view.
- Highlight diversity in the room, including diversity of industries and varied past roles. When new directors are added to the board, ensure that they are fully brought into the fold.

Conclusion

Board dynamics won't change unless directors are willing to take a hard look at the biases and practices on their own boards. Use these insights into behavioral psychology to see your board interactions through a new lens. And once you've identified some potential issues, apply the tools here to help bring about change.

How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner or a member of PwC's Governance Insights Center.

Ray Garcia
Governance Insights Center Leader, PwC US
ray.r.garcia@pwc.com

Paul DeNicola
Principal, Governance Insights Center, PwC US
paul.denicola@pwc.com

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