Understanding “Group” Decision-Making to Improve Board Behavior

Here's a tip from the sixth edition of our popular publication ***The Public Company Handbook***, which is an easy-to-read guide that provides practical insights regarding legal and other board management issues facing public—or soon-to-be-public—companies.

This tip involves group decision-making. By and large, people will make better decisions as part of a group – so convening a group of intelligent individuals to address tough issues should be an asset of corporate Boards. However, the failures in Board decision-making in Enron, WorldCom and other corporate governance scandals appeared to arise, in significant part, through flawed group decision-making.

Boards can help decision-making by understanding that each director will make decisions differently when serving as part of a group than when acting individually. For example, studies show that responsible and capable people take less responsibility in group settings, in effect becoming "bystanders," than they would individually. Stress from time constraints or the importance of a decision can accentuate human factors that lead to flawed group decision-making.

Here are some practical steps Boards can take to avoid the potential pitfalls of group decision-making:

- Keep the Board small or use Board committees and executive sessions to discuss decisions in smaller groups, minimizing "bystanders";
- Assign a "devil's advocate" role to a director or group of directors to analyze the downside of critical decisions;
- Create a nonconfrontational way for newer or more junior members of the Board to make suggestions, raise questions and give their opinions – especially in the critical first year;
- Assign each director an area of focus, on committees or on a task force, regarding a subject of specific concern for the company; and
- Identify anomalies or issues as they emerge, before they become crises.

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