



## Directors: to be or not to be a professional?

‘Although directors have always been accountable for their decision-making in law, the low level of criminal and civil proceedings in the UK (regardless of outcome), demonstrates an inefficient mechanism for regulating director behaviours to date.’

*Claire Fargeot*

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## The importance of context

‘Motivation to conduct a review will have considerable impact on the likely outcome of the review. Conducting a review for a board which has been compelled by a regulator will likely deliver quite different results than one which has been commissioned by a Chair with a genuine desire to understand how to improve the effectiveness of the board.’

*Alison Gill*

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# Feature

## Inside the board

**Sandra Guerra, Lucas Ayres Barros and Rafael Liza Santos** report back on recent research on interaction dynamics, decision architecture and outcomes in boards around the world.

The Board of Directors (BoD) is a major decision-making engine within organisations of all types, all over the world. The research into what makes this engine stall or work better is vast and diverse.

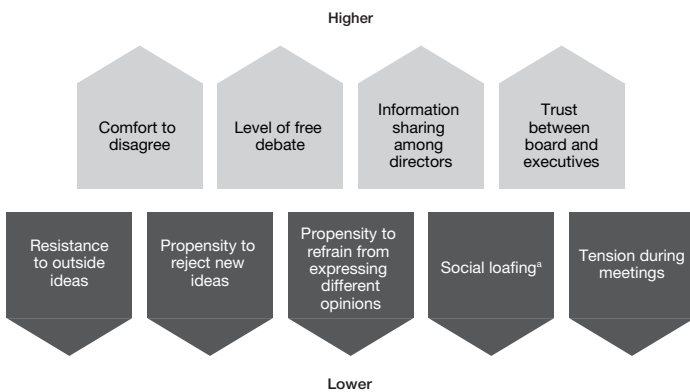
This research (see endnote for details) is one of the few to elicit detailed information and perceptions about the functioning of BoDs from board members themselves across several countries. By peeping into the ‘black box’ of boardrooms, the study investigates some of the main challenges faced by BoDs in their quest for effective decision-making with a focus on the interactions among directors during meetings and on contextual elements that may promote or hamper sound decision-making. The research draws on a rapidly expanding body of knowledge<sup>1</sup> related to how individuals and small groups make (good or bad) decisions, including contributions from several fields, such as organisational psychology, management/governance, and behavioural economics.

### Meeting interactions and decision-making in boards

Several composite variables were constructed aggregating questionnaire items that relate to abstract concepts, such as ‘*BoD dynamics*’ and ‘*BoD outcomes*’.

According to the respondents’ perceptions, boards with higher scores in the *BoD dynamics composite*, which aggregates nine questionnaire items, typically experience:

Chart 1.



a. ie perceived inadequate individual effort by board members

The *BoD dynamics composite* associates positively and strongly with the five questionnaire items related to board decisions, either individually or aggregated in the *BoD outcomes composite*. Specifically, a greater *BoD dynamics* score strongly predicts: higher creativity/innovation;

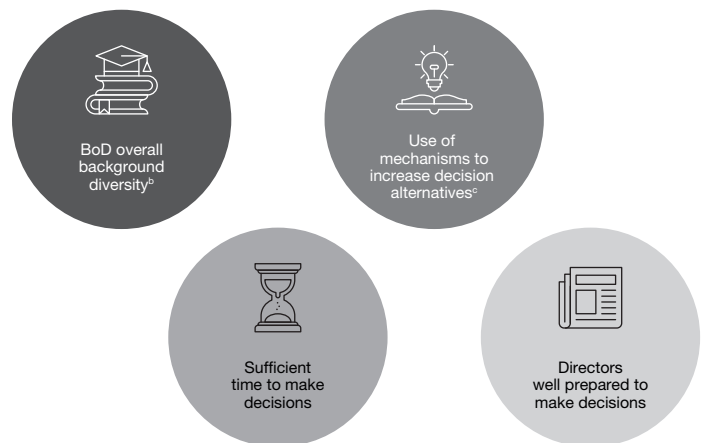
performance of the BoD overall and satisfaction with the BoD’s decisions. It also predicts a lower propensity to make decisions that are ethically questionable or extreme.

### The role of decision architecture

The concept of BoD’s decision architecture refers to contextual elements that might shape and condition the decision-making process. There are interesting associations of elements related to the BoD’s decision architecture with both *BoD outcomes* and *BoD dynamics*, some of these were documented for the first time in the board research literature.

Specifically, *BoD outcomes* positively and strongly associate with:

Chart 2.



b. including education, knowledge, positions held, experiences and outlooks  
c. such as checklists, decision trees, and brainstorming or scenario planning techniques

*BoD outcomes* negatively associates with the perception that:

Chart 3.



d. absence of a flexible dynamic

# Feature

Several features related to the structure of BoDs do *not* consistently predict BoD decision outcomes. These include board size, director tenure, the number of advisory committees, and having an independent director as the board Chair. Likewise, the number and average duration of meetings seem to be of little relevance. Items related to the degree of BoD diversity yield mixed conclusions. While background diversity strongly associates with perceived *BoD performance*, there is no relevant association regarding the proportion of independent directors, foreign directors, women or directors under 40 years old. Similar inferences hold for the degree of ethnic diversity and the gender of the Chair.

*BoD dynamics* positively associates with some board-level and organisation-level characteristics and perceptions, including elements of the BoD's decision architecture covered in this survey such as: the percentage of independent directors; the perception that directors are well prepared to make decisions; the use of mechanisms to increase decision alternatives (see above); the use of explicit meeting interruption mechanisms; and perception of there being sufficient time to make decisions. In addition, this research documents for the first time that the existence of a regular board evaluation process, either implemented internally or enhanced with the involvement of independent third parties, associates with improved *BoD dynamics*.

In contrast, *BoD dynamics* (similarly to *BoD outcomes*) negatively associates with the perception that: the board is stuck in habitual routines; meetings take place under time pressure; and fatigue on meetings contributes to hasty decisions.

Chart 4.



## Insights and takeaways

This research effort hopes to improve the understanding of the drivers of decision-related outcomes in BoDs. While most previous research emphasises BoD structure (eg the number of independent directors) or standard processes (eg the length of board meetings), this research considers subtler elements related to the decision-making environment and to the interactions among board members.

The results may inform those directly involved in the complex dynamics of the boardroom, including the Chair, and contribute to:

- mitigate limitations that hamper the optimal functioning of the board;
- improve mechanisms and processes that prompt a better setting for more robust decision-making;
- offer guidance to board directors on how to improve their individual development to be better board members.

This study might also inform policymakers and regulators in their quest to improve rules and recommendations regarding BoDs.

While some of the takeaways from this research reinforce previous studies, other are novel contributions – in particular, the potential benefits of introducing into the boardroom explicit ‘decision-enhancing mechanisms’, for example, checklists, decision trees or other tools aimed at increasing the diversity of decision alternatives.

In the sample surveyed, the use of these mechanisms is still scarce. Only 3.7% of the sample said they always used decision-enhancing mechanisms before or during board meetings and 37.4% said they never used them with a further 32.2% using them but only rarely.

In only 5.9% of the sample did the Chair always use mechanisms to avoid excessive optimism such as a pre-mortem or use of a devil's advocate or some such device. 28.2% of Chairs never used these types of mechanism and 28.9% rarely used them.

When asked whether, in order to avoid hasty decisions, the board uses a regular meeting interruption mechanism for coming back to the topic at a later date, 26.4% never used one, 31.1% rarely used one and only 5.1% always used such a mechanism.

The usage of such tools or mechanisms in the boardroom predicts both improved *BoD dynamics* and *BoD outcomes*, especially those related to meeting interruptions and to the promotion of a more diverse set of decision alternatives. Taken together, they might go a long way in helping boards reduce decision-making distortions stemming from individual and group biases.

Overall, the results reported here suggest that organisations should not ignore the potential challenges to sound decision-making related to the interactions of board members. Fortunately, relatively simple interventions offer promising avenues for improvement, informed by the ever-growing body of knowledge produced by behavioural research.

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Rafael Liza Santos has more than 15 years of experience as a management consultant in corporate governance, business strategy and corporate finance. He holds a degree in Economics from the University of São Paulo with specialisation in Applied Economics at the University Paris-Dauphine, in France.

The survey was released in English, Portuguese, and Spanish and Portuguese in several rounds during 2018 and it was responded by 358 board directors. Although the sample comprises 40 different countries, responses were concentrated in Brazil and Latin America, where most of the co-authors' professional network is located. The research project is supported by the International Finance Corporation, University of São Paulo and Better Governance. The follow up questionnaire capturing additionally the effects of the pandemic can be accessed at <https://pt.surveymonkey.com/r/BoardResearch2021>

i. See, for example: Kahneman, D., Lovallo, D., & Sibony, O. (2011). The Big Idea: Before You Make That Big Decision. Harvard Business Review, June, 51–60. <https://hbr.org/2011/06/the-big-idea-before-you-make-that-big-decision>; Tindale, R. S., & Winget, J. R. (2019). Group Decision-Making. In Oxford Research Encyclopedia of Psychology (p. 24). Oxford University Press. <https://doi.org/10.1093/acrefore/9780190236557.013.262>; Van Ees, H., Gabriellsson, J., & Huse, M. (2009). Toward a behavioral theory of boards and corporate governance. Corporate Governance: An International Review, 17(3), 307–319. <https://doi.org/10.1111/j.1467-8683.2009.00741.x>

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