Publication: The Business Times, pg 19
Date: 29 March 2019
Headline: Corporate governance: avoiding the groupthink pitfall

Corporate governance: avoiding the groupthink pitfall

Consensus due to similar personal backgrounds, lack of diversity in views and failure to see things from others' perspective can lead to bad decisions. BY THEMIN SUWARDY

THE recent changes in the 2018 Singapore Code of Corporate Governance have set the governance bar higher and made it clearer on several fronts. The 2018 Code has more bite as a number of provisions are now reflected in the Singapore Exchange Listing Rules where compliance is mandatory. It is now also clearer that compliance with the Code's principles are expected, and only variations from the Code's provisions, with explanations, are allowed.

The 2018 Code itself is more concise and less prescriptive, with 13 principles and 51 provisions, compared to 16 principles and 82 provisions in the 2012 Code. In fact, the word count in the 2018 Code is only about half of that in the 2012 Code!

Which is why I find it curious that a new word was added to the Code. Was it diversity? Sustainability? What about the environment or social factors? No, these words were already in the 2012 Code.

I offer (part of) Provision 2.4 in the 2018 Code: "The Board and board committees are of an appropriate size, and comprise directors who as a group provide the appropriate balance and mix of skills, knowledge, experience, and other aspects of diversity such as gender and age, so as to avoid groupthink and foster constructive debate."

The new word for our corporate governance lexicon is "groupthink". The word itself is not new, often attributed to Irvine Janis, a Yale psychologist back in the 1970s.

So I consulted my colleague, David Chan, who has extensive expertise and experience in the science and practice of industrial and organisational psychology both globally and locally.

Prof Chan describes groupthink as "the phenomenon where a highly cohesive team makes bad decisions because team members withhold dissenting views to go along with majority opinion in order to maintain consensus and avoid conflicts".

He adds that "groupthink happens when the team climate either forces or nudges members to keep quiet, agree with the leader and senior team members, or express only views that they think those in power want to hear".

Leaders who surround themselves with yes-men are more likely to keep the status quo and implement or stick with ill-conceived strategies. ILLUSTRATION: PIXABAY

Cohesiveness not always good

What is wrong about being cohesive, you may ask. After all, having consensus and no conflicts appear very desirable in an organisation. It seems intuitive that a united board (including the CEO and senior management) can accomplish things more easily, faster and better.

This is where Prof Chan has cautioned, in several of his writings, to beware of situations "when virtue becomes vice". He explained how high cohesiveness and consensus brought about by members' similar backgrounds, the lack of diversity in views, confirmatory bias and the failure to see things from another's perspective are powerful causes of groupthink that lead to bad decisions.

For example, research has consistently shown that CEOs or leaders who surround themselves with yes-men (and yes-women) are more likely to maintain the status quo and implement or stick with ill-conceived strategies.

One theory from researchers in the University of Michigan and Northwestern University's Kellogg School of Management is that flattery and opinion conformity make CEOs overconfident, resulting in biased strategic decision making. In these companies, the ethos is based on "dissent is bad, agreement is good", where careers, progress and success are built on being able to see eye-to-eye and being in alignment with the next one up.

The same goes for the board.

A fraternity (or "old boys club") culture can take hold in the boardroom, suppressing discussion and disagreement. When mixed with a domineering CEO, groupthink can be disastrous.

In fact, a number of authors have squarely pointed to groupthink as a contributor to corporate scandals and failures, from WorldCom and Enron to more recent ones including Olympus and Toshiba.

The recently retired CEO of Time Warner, Jeff Bewkes, says the biggest challenge for a board is "to strike the right balance between the necessities for collegiality and for the board to function effectively as a team. You want to deal with multiple points of views and not make it hard for people to express their views, but you don't want to have over-pronounced collegiality that allows any person to dominate".

The Code suggests that one way to strike the balance and prevent groupthink is to have more independent directors, especially when the CEO and the chairperson is the same individual, and tightening the requirements for appointment of independent directors. The Code also calls for more diversity in gender, age, skills, knowledge and experience.

The gender diversity of our corporate boards is still appalling. I have previously called for a "25 per cent by 2025" target, and asked for government-linked companies (GLCs) to set an example for others to follow. We are still tiptoeing around the "nine-year rule". I am advocating that all companies clearly disclose directors' tenure as a starting point for shareholders to think about renewal and succession planning.

Efforts in setting up the appropriate structure and composition of the board will take time to come through, and even then they can only help so much.

What is critical is for board members, CEOs and business leaders to be aware and cognisant of the symptoms of groupthink and other related social and cognitive biases in team functioning.

These symptoms include:

- A group that acts and believes in its own superiority, is overly optimistic regardless of risks and collectively rationalise that all decisions it makes are infallible.
- A group that constructs stereotypes of others not aligned with the groupthink or one that pressures others for conformity, viewing any opposition as disloyalty.
- A group in which members self-censor and refrain from expressing dissenting views and counter arguments, leading to an illusion of unanimity.

To combat groupthink, consider strategies such as:

- Foster a culture where open constructive conversations are encouraged.
- Focus on objectives but seriously explore alternatives and test underlying assumptions.
- Play "devil's advocate" in decision making, embrace conflict as an essential part of a good outcome.
- Allow options to come bottom-up instead of signalling preferred outcomes at the outset.

The inclusion of a warning against groupthink in the 2018 Code is timely. The phenomenon is real and leaders need to be aware of its insidious effects and take active steps to prevent and combat it.

The writer is associate professor of accounting (practice) and dean of postgraduate professional programmes, Singapore Management University