Decision-making in the *visionary* boardroom

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Introduction

Companies today face uncertainty and disruption on all fronts. Technology is enabling new competitors and transforming business models at breakneck speed. The expectations and needs of customers, employees, and other stakeholders are causing companies to rethink the way they operate. And geopolitical polarization, increasingly sophisticated cyber breaches, and cultures that discourage innovation or encourage misconduct are creating new and significant risks. In light of the important role boards play in helping to guide their companies in this challenging environment, visionary boards must use every tool available to them to help their companies develop and update sound strategies that will enable them to win in the marketplace over the long term.

Decision-making capabilities provide fertile ground for improvement in many organizations. In a global survey of senior executives, 72 percent said that bad strategic decisions were either about as frequent as, or more frequent than, good decisions in their own organizations.[1] Another study of executive decision-making found a strong correlation between top quartile decision-making processes and business results. The study found that while quantity and detail of analysis were important, decision-making process mattered more than analysis, by a factor of 6.[2] "Superb analysis is useless unless the decision process gives it a fair hearing," wrote the study's authors.[3]

Board-level attention to the foundations of decision-making can help give companies an edge in our complex and competitive business environment. Visionary boards assess management's decision-making capabilities and seek to ensure that the board itself practices a well-considered approach to decisions. This report addresses key issues that help sharpen decision-making capabilities: understanding inherent barriers such as innate biases and mental shortcuts (Chapter 1), optimizing the quality and relevance of information (Chapter 2), leveraging board dynamics for quality decision-making (Chapter 3), and using evaluations to ensure that decision-making keeps pace with the changing business environment (Chapter 4).

Building on the 2016 report Seeing Far and Seeing Wide: Moving toward a Visionary Board*, and the 2017 report* The Visionary Board at Work: Developing a Culture of Leadership*, the WCD 2018 Thought Leadership Commission report offers recommendations and practical suggestions to encourage decision-making in the visionary boardroom. KPMG is proud to sponsor this report, and to present it on behalf of the WCD 2018 Thought Leadership Commission: members with deep expertise in boardrooms in North and South America, Europe, Africa, and Asia—from public and private companies to co-ops and family-owned businesses.*

Susan Angele
Chair, WCD 2018 Thought Leadership Commission

Understand how innate tendencies and mental shortcuts create barriers

Decision bias, mental shortcuts, heuristics—this is not the typical language of the boardroom, drawing more from behavioral economics and social psychology than strategy and finance. Yet when business decisions are analyzed from this perspective, their influence readily becomes apparent. These issues cut to the heart of how we think and make decisions, and in a disruptive business environment such awareness could not be more important for visionary boards.

Given the potential impact, a McKinsey & Company survey of nearly 800 board members found that their top aspiration for improving performance was "reducing decision biases."[4] Understanding and reducing bias helps us perceive and build processes to avoid blind spots, and provides a foundation for the board to continuously improve the group decision-making dynamic.

Addressing decision biases can make a difference. In a published interview, Bernhard Günther, the former CFO of RWE, described how his organization implemented a "de-biasing" program in the aftermath of a significant business loss. "At first glance many of the tools might seem trivial to some, but we found them to have a very profound effect," said Gunther.[5]

Given that these tendencies are part of human nature, what impacts the organization can also make a difference in the boardroom. This chapter looks at some of the innate mental shortcuts and decision biases highlighted by behavioral economists and social psychologists and assesses how they may manifest in the boardroom. As you reflect on the stories in this chapter and the decision-making processes of your board, management, or individual directors, consider these questions and their implications:

Do "hidden profiles" remain hidden?

Hidden profiles are pieces of information, relevant to a decision, that are known but do not become part of the conversation. Numerous studies have found this to be an issue in group decision-making. In a series of experiments, groups were asked to solve a problem in which all the information needed to arrive at the right answer was available and distributed among the members of the group. In study after study, groups came to the wrong conclusion for a simple reason – they focused the conversation on the information they all shared, and failed to access the full range of relevant, available, information.

> "The world in our heads is not a precise replica of reality..."
>
> — Daniel Kahneman, Nobel Laureate

An example of how this plays out in the boardroom involves an acquisition that had been made shortly before one of the Commissioners joined the board. The information provided to the board by the chief executive officer told a great story on its face, complete with valuation assessments that strongly supported the deal. Yet a culture clash between the two companies was so severe that the business was ultimately unable to achieve a significant portion of the expected synergies. Information on the target's culture would have been available if it had been sought, yet the bias toward shared information kept the board's decision rooted only in what had been provided.

Does "representativeness" create blind spots?

An additional dynamic comes into play when we need to make quick decisions in an uncertain environment with no obvious right answer (i.e., almost every board decision). "Representativeness" is a term used by behavioral economists for a mental shortcut that affects everyone—we make judgments about B based on how similar the circumstances are to A. For example, numerous start-ups have attracted venture funding by creating business models described as "it's like Uber or Air BnB but for xxxxxx." The beauty of the description, from the entrepreneur's point of view, is that it is not only a simple way of describing the start-up's vision, the comparison also plays to the listener's representativeness bias by associating the start-up with successful companies. Representativeness bias has a tremendous upside, as it helps us quickly tap our expertise and experience to analyze a situation. However, repeated studies and research show that if we are not on our guard for differences between the new situation and the one that was successful, the "representativeness" heuristic can cause us to assume more similarity than is actually the case. As Herta von Stiegel says, "We tend to think, if we're doing it like this in Alabama, it must be good for us in Angola."

Is preference given to confirming information?

One of the most prevalent biases in human nature, and therefore in the boardroom as well, is confirmation bias. The decision of a board special committee that was challenged in Delaware courts is a particularly egregious example. A controlling shareholder proposed that the company acquire one of the shareholder's subsidiaries in exchange for approximately 72 million shares of company stock (a $3 billion valuation). A special committee of independent directors was established to evaluate the transaction. When the initial valuation came in from the investment bankers, the target was valued at $1.7 billion. Rather than reject the proposal or consider alternatives, the committee tasked the bankers with developing other means of assessing both the target and the stock, and in this way bridged the gap enough to reach a deal. In writing about the impact confirmation bias had on the approval decision, Delaware Vice Chancellor Travis Laster comments: "Confirmation bias is the tendency to seek out information that validates existing views and prior commitments. Confirming evidence makes us feel good, so we embrace it. At the same time, we seek to discount and explain away disconfirming evidence. We tell a story in our minds, then attempt to fit the evidence to our story."[6]

Is the decision overly influenced by an "anchor"?

In the case above, the $3 billion proposed price served as an ongoing reference for the valuation assessment, and every action that followed was a reaction to the initial number. This is an example of anchoring, a form of bias that lends credibility to even an outlandish demand, simply because it was the starting point. And numerous studies have shown that such a tactic can have some degree of effectiveness in a negotiation. If the "anchored" number is not rejected outright, the negotiated outcome is often higher than it otherwise would have been because it seems reasonable compared to the initial demand.

Anchoring can serve as a barrier to sound decisions. In a classic experiment, people are asked to estimate the number of marbles in a container. With a large group participating, even if individual responses are completely off base, the average number tends to be more or less correct. In contrast, when the participants are in an environment in which they hear the responses of others before providing their own response, the first response sets the tone and the other responses tend to cluster around it. If the first response is off base, the result is what Daniel Kahneman refers to as "correlated errors." If not recognized and countered, might boards react the same way and fail to dig in to understand the assumptions underlying a management assessment?

"We all have to recognize that we come to the table with a series of experiences, backgrounds, etc. which are going to make us think of things in certain ways."

— Kathleen Barclay

Is the group too collaborative?

The term "groupthink" was originally coined by psychologist Irving Janis to refer to situations involving (1) a strong, persuasive group leader; (2) a high level of group cohesion; and (3) intense pressure from the outside to make a good decision. What Janis found in studying such environments was a lack of exploration of alternatives, lack of informed decision-making, and, not surprisingly, poor decisions.

Today, the term is used more broadly and covers the atmosphere that was traditionally found in many boardrooms, where board members were expected to "go along to get along", and dissenting views were discouraged. Whether boards operate in an atmosphere that fits within the original definition or the more colloquial use of the term groupthink, the implications for decision-making are the same and they are not good. A number of Commissioners described boards from which they ultimately resigned because the environment was not conducive to open discussion. Fortunately, this is becoming less prevalent as boards refresh and reconsider how they operate, yet groupthink pressures can still be found in too many boardrooms.

The role of the chair

Throughout our conversations on how visionary boards can strive for effective decision-making, Commissioners frequently highlighted the role of the board or committee chair in ensuring that debate is balanced and appropriate.

In the Harvard Business Review *article, "How to Be a Good Board Chair," Stanislav Shekshnia, professor at INSEAD, distilled his survey research from 200 board chairs from 31 countries; 80 interviews with board chairs; and 60 interviews with other board members, shareholders, and CEOs.*

"An effective chair provides leadership not to the company, but to the board, enabling it to function as the highest decision-making body in the organization," writes Shekshnia, in laying out eight principles for the chair:

1. ***Be the guide on the side.*** *Restraint, patience, and availability are critical behaviors for a board chair.*
2. ***Practice teaming—not team building.*** *A chair should focus on "scoping, structuring, and sorting collaborative work."*
3. ***Own the prep work.*** *Experienced chairs "recognize that meetings are just the tip of the iceberg."*
4. ***Take committees seriously.*** *"Work on committees is key to a board's success."*
5. ***Remain impartial.*** *"Collective productivity suffers when the person at the head of the table has strong views on a particular issue."*
6. ***Measure the inputs, not the outputs.*** *"Five inputs are critical: people, board agendas, board materials, board processes, and board minutes."*
7. ***Don't be the boss.*** *Good chairs "always represent the board and keep the other directors informed about all new developments and insights."*
8. ***Be a representative with shareholders, not a player.*** *"In interactions with investors, it's crucial for the chair to act as the board's agent, not as an individual."*

Find the full article at ***HBR.org.***

Is overconfidence an issue?

Overconfidence bias is difficult to assess and manage, as self-confidence and the ability of confident people to inspire others are essential leadership traits. Yet, overconfidence becomes an issue when bias leads an individual away from a healthy level of introspection or debate about their own decisions and judgments. As noted in the McKinsey article, "Are You Ready to Decide?," overconfidence bias, "frequently makes executives misjudge their own abilities, as well as the competencies of the business. It leads them to take risks they should not take, in the mistaken belief that they will be able to control the outcome."

One of the Commissioners relayed an example of overconfidence bias involving a board chair who was the former CEO of the company. He took a position with which a majority of the independent directors disagreed. The board chair created a challenging dynamic in driving his viewpoint, essentially indicating that he knew more than anyone else about what was best for the company, and shutting down any attempt at examination and discussion of the view held by the independent directors. The "imperial CEO" (or chair, in this case) is an example of overconfidence bias that reduces the ability of the board to do its job.

A corollary to overconfidence bias is the halo effect, which can create an unrealistic level of confidence in management due to the company's prior success. For a business that is going well, there may be a question regarding how much of its success is due to actions within the control of the company and how much is due purely to marketplace forces. As one Commissioner commented, "CEOs often take credit for success when it is actually external forces driving growth." The CEO may be overconfident, and the board should not be taken in by the halo effect to assume that the company will continue to perform well if the marketplace changes.

Overconfidence or the halo effect can prevent identification of a problem until it is too late. One Commissioner described a new CEO who did a terrific job with cost reduction, resulting in a company that was very healthy. When the company was ready to move from cost cutting to growth, the halo was bright and shiny and the board did not question the CEO's ability to achieve the new goals. Unfortunately, the CEO was better at leading efficiency than innovation. The confidence the CEO had inspired created a blind spot for the board and the growth strategies were not critically assessed and pressure tested as they otherwise might have been.

Is the focus too narrow?

Nobel Laureate Daniel Kahneman uses the acronym WYSIATI—"what you see is all there is." The concept is that when we make judgments, we tend to do so based on stories we create in our minds out of the limited information available. He says "our measure of how 'good' a story is—how confident we are in its accuracy—is not an evaluation of the reliability of the evidence and its quality, it's a measure of the coherence of the story. People are designed to tell the best story possible.

So WYSIATI means that we use the information we have as if it is the only information. We don't spend much time saying, 'Well, there is much we don't know.' We make do with what we do know. And that concept is very central to the functioning of our mind."[7] As Commissioner Kathleen Barclay says, "We all have to recognize that we come to the table with a series of experiences, backgrounds, etc. which are going to make us think of things in certain ways."

It may seem obvious that we often make judgments based on limited information; and most of the time our experience and background stands us in good stead. Kahneman's point is that because of the way we are wired, there is an innate tendency that causes us not to look for more information than we already have unless there is some signal that leads us to do so. The signal can be the magnitude of the decision presented, or some other external factor such as a question raised in the boardroom. An example can be seen in a story relayed by Commissioner Marina Brogi. During a discussion at one of her companies, she asked about the average age of customers. The information was available within the organization, but had not been considered in the context of strategy. The ensuing discussion revealed a significant risk to long-term value: the customer base was aging, especially in certain countries. Once management became aware of the issue, they were able to address this vulnerability by developing and implementing plans to attract new and younger customers. Marina's question brought new information into the conversation that otherwise would have been missed. Awareness of the WYSIATI tendency supports the critical importance of raising the question, "what else do we need to know?"

Are we too slow to change?

Lack of a decision is often riskier than making a decision. This led one Commissioner to consider by analogy the classic paradox of Buridan's donkey. In the story, a donkey stands between a pail of water and a bale of hay. Unable to decide which to consume first, the donkey does not eat or drink and eventually dies.

This paradox plays out frequently across organizations and in boardrooms, sometimes with similar outcomes for the companies involved. Also known as "analysis paralysis," decision makers delay action until it is too late. Boardroom examples often involve activist investors. In many instances, directors have a history of having discussed some of the same issues raised by the activists, but the board members have been unable—sometimes for years—to convince the full board to make a decision and act.

One cause of resistance to change is what Duke Professor Dan Ariely refers to as "the high price of ownership". This is the tendency that may cause us to overvalue something for which we feel ownership. At its simplest, as Ariely describes it in his book, *Predictably Irrational*, we may place an above-market value on our home, car, or other possession for three reasons: we fall in love with what we already have, we focus on what we may lose rather than what we may gain, and we assume other people will see a transaction from the same perspective we do.

Feelings of ownership increase as we put in more work. These tendencies apply to ownership of goods, investments, and ideas. As it relates to investments, how often do boards simply watch as management continues to ride out a losing investment trying to recoup sunk costs? And how often do we encounter management or other board members who become invested in a strategy and are unwilling to consider other alternatives? As Phyllis Campbell has observed, "Resistance to change is part of human nature. If a business model has brought you success today and it's what you know, there is resistance to challenging that model. It's a human behavior that every director needs to be aware of."

Understanding how innate tendencies and mental shortcuts create barriers

Visionary boards:

— Develop awareness of innate influences such as cognitive biases and mental shortcuts.

— Consider the implications in both management decision-making and the boardroom, and ask:

  – Is undue preference given to information that confirms a desired result, while information that counters the desired result is discredited?

  – Are decisions overly influenced by initial, anchoring information?

  – Is there pressure toward groupthink?

  – Is overconfidence in a strategy or an individual leading to blind spots?

  – Are we too invested in the status quo, or too risk averse, to quickly recognize and act upon necessary change?

  – Have we asked the question, "what else do we need to know?"

Chapter 2

Find the future

As the Canadian hockey legend Wayne Gretzky is often quoted as saying, "I don't skate to the puck, I skate to where the puck is going." When considering the multitude of ever-changing inputs that may be used to try to predict where the company should be "skating," the first step that visionary boards take is a smart approach to information. Given the innate tendency toward WYSIATI (what you see is all there is so we use the information we have as if it is the only information), visionary boards are highly focused on the quality and relevance of information, on assessing management's data strategy, and on enhancing the relevance and quality of what the board sees. As Marty Evans says, developing the right set of information in a useful format is so important that for a board or committee chair, "it's not only appropriate but it's in the top five tasks that ought to be undertaken."

Maureen Breakiron-Evans suggests that boards consider the following questions:. "What information do we need? Are we getting too much or are we getting too little? Is it in the right format? Is it helpful?" On one of her boards, Marty Evans took a clean sheet approach and sought input from management and each of the board members, establishing a partnership between the board and management and taking into account the diverse needs and perspectives of the board members. The result was less voluminous—but more relevant and focused—information, as well as the start of an iterative process that continues to evolve as the business environment and the needs of the board and its committees change.

Set the tone for a data-informed organization

As the capabilities of data analytics, including artificial intelligence, continue to improve, those companies that excel in making data-informed decisions will have a tremendous strategic advantage. Given the vast opportunities and the potential implications for the company's business model, oversight of information strategy should be on the board's agenda. Visionary boards have the capability to assess and help guide the company's data and analytics strategy, through a director with relevant expertise, external experts, and/or board education. Does the organization have the right talent to create and implement a data and analytics strategy that turns information into insight, and is the culture agile enough to continue to leverage new and emerging data-related technologies for strategic advantage? Is the company making the right investments to position it to deeply mine the value of its data for decision making? Has management explored the predictive value of artificial intelligence in order to understand patterns and highlight concerns—for example analyzing customer-related data across the company as well as social media, and using it to identify signals of change in consumer trends or demographics?[8] Does the company's culture encourage the use of technology, balanced by sound judgment, to support good decisions?

> **"The future is already here—it's just not very evenly distributed."**
>
> **— William Gibson, science fiction author**

Focus on the fundamental drivers of value

Boards are subject to information overload, and as the amount of data increases exponentially, visionary boards are taking a fresh look at their board books to ensure that the materials focus on what counts. As Herta von Stiegel says, it helps to keep in mind the "big pillars" of board responsibility—strategy, risk, and people. "If the information I'm receiving is actually crowding out or clouding the fundamentals that we as a board need to focus on, then alarm bells go off." She described working with management of one of her companies to make the information provided to the board more targeted, more concise, and more impactful. She says "condensing the board pack to what is truly essential made for a much clearer and much more thoughtful exposé of what the board should focus on."

In addition to financial data, visionary boards increasingly seek information about the "soft" issues that impact strategy and risk. Given the relevance of culture as a competitive advantage on the one hand or a major risk on the other hand, visionary boards are working harder to discern not only the tone at the top but the "mood in the middle" and the "buzz at the bottom." Directors of visionary boards make it a point to get a sense of the organization outside of the boardroom and the c-suite. As Marty Evans says, "never underestimate the importance of board members going out and visiting the field. [On one board], walking around the factory floor gave me more insight about whether the safety procedures that we were briefed on in the plan were viable."

Nance Dicciani described a program at one of her companies where board members participate as speakers in the organization's leadership training program. She views this as a powerful opportunity to learn more about the company's culture and perspective deeper into the organization. "It's an opportunity for directors to ask questions—'What are you worrying about?' 'What do you think the big issues are?' 'Are there things you think we should be looking at?'"

Directors are also asking to see data—employee engagement surveys, turnover rates, and other metrics—to help them better understand what is really going on in the organization and the implications of culture on strategic decisions.

Bring in external voices

"As a board member you need to put your hands around the question of where are we vulnerable, what are the trends we need to anticipate," says Herta von Stiegel. Many boardrooms today bring in outside speakers, and the Commissioners view this as an important practice. Speakers have included experts in industry or customer trends, bankers, financial analysts, members of other boards with relevant experience, customers, suppliers, academics, authors, futurists, regulators, even activists. Leila Loria suggests bringing in one outsider at every board meeting. "It may be suppliers, it may be financial analysts, investment bankers, or someone who is working on something related to the company's business."

"If the information we are receiving is actually crowding out or clouding the fundamentals that we, as a board, need to focus on, then alarm bells go off."

— Herta von Stiegel

Mary Pat McCarthy recommends that public-company boards bring in a securities analyst who follows the company, ideally someone who is particularly critical of the company. She also suggests that board members attend an analyst meeting for their company's industry. "Every time I can go, I go. It is incredibly instructive."

Board members are also going to trade shows to stay on top of trends. For example, Maureen Breakiron-Evans commented on a curated visit for directors to the Consumer Electronics Show in Las Vegas as a good, wide-ranging venue for information gathering. "These are excellent ways to be thinking about where the technology is going, what are the possibilities, what kinds of things should we as directors be asking about?"

Insist that information be usable

As Brenda Gaines says, "Don't just give us report after report. Just showing numbers is not helpful if there's no analysis with it. What are you [management] trying to tell me with the numbers? What's the trend? And how are you using these numbers?" For example, tracking information—cyber breaches, research and development spending, sales from new products, etc.—should be framed in a way that is meaningful in a broader business context. And dots need to be connected—is there a history of complaints that are each handled individually, and collectively tell a story of systemic culture failure, such as sexual harassment or lack of financial integrity?

Visionary boards need information that is provided with enough lead time for directors to fully digest and comprehend in order to engage in a robust and informed discussion. Gabrielle Sulzberger referenced “a little wrinkle” that seems to have become more prevalent as electronic board portals have become ubiquitous. “It takes more discipline on the part of management not to continuously update the portal.” And of course the information should be clear, crisp, and concise—with an appropriate summary, scorecard or dashboard to help visionary boards quickly assess and absorb the information they need to support optimal decision-making.

Consider how context and structure impact how we receive information

Visionary boards consider not only what information they want to see, but also consider how context and even board structure might impact how the information is received and assessed. As Connie Collingsworth says, “There’s just so much going on with respect to technology that every company has to think about these days: what mechanism can you use to keep the board up to date in an efficient way?” One of her boards uses a novel committee structure to accomplish this, “The investment venture fund reports to the governance committee rather than the finance committee. These are higher-risk investments that offer an aperture of interesting information to help the company learn. And reporting to the governance committee underlines this positioning—the fund is measured based on what the company gained from the knowledge, not just financial success.” This example shows how the context in which information is presented makes a difference. Visionary boards give consideration to this—even leading to differences in when and where boards bring in outside speakers. Many boards provide this information informally, such as at a dinner discussion, and others bring the discussion squarely into the boardroom. Leila Loria says, “I prefer it on the board agenda. It shows how important [these views are].”

Finding the future

Visionary boards:

— Set high expectations for management to develop and continuously improve a company data strategy for relevant business analytics and identification of early signals of internal and external change.

— Take a clean sheet approach to the materials provided to the board—with input from each board member, work with management to develop a common understanding of what the board needs to see.

— Consider the fundamentals on which the board needs to remain educated—factors impacting strategy, risk, and talent—and strategically design a mix of internal and external initiatives to bring in a sufficiently wide range of information to supplement the board materials.

What's your decision-making style?

Early-stage research, based on 5,000 responses from McKinsey Quarterly and Harvard Business Review readers, led a McKinsey team to identify five different types of decision-making styles. Consider your own style and the style of your board colleagues, and how these may impact board decisions.[9]

Visionary

Pro:
A champion of radical change with a natural gift for leading people through turbulent times.

Con:
May be too quick to rush in the wrong direction.

Guardian

Pro:
A model of fairness who preserves the health, balance, and values of the organization. Decision-making process is sound, carefully planned, and incorporates as many facts as possible.

Con:
May be blind to a desperate need for change.

Motivator

Pro:
A compelling leader for change with an excellent ability to build alignment; a strong, charismatic storyteller.

Con:
May believe the vision at the expense of the facts.

Flexible

Pro:
The most versatile, comfortable with uncertainty, open minded in adapting to circumstances, and willing to involve a variety of people in the decision-making.

Con:
Exploring too many potential solutions and decision outcomes can lead to "paralysis by analysis".

Catalyst

Pro:
A true champion of group decision-making and implementation. The most balanced of decision-makers, relatively resilient to the biases inherent in the more extreme decision-making preferences.

Con:
A middle-of-the-road style may yield average results.

Create the right conditions for forward-looking decision-making

Awareness of how we make decisions leads to processes that help build decision-making muscles, within the organization and in the boardroom. Visionary boards take practical suggestions developed through the learnings of behavioral economics and social psychology, in order to guide their companies with clear eyes.

> **The power to question is the basis of all human progress.**
>
> **— Indira Gandhi**

Limit time spent looking backward

When asked about barriers to the board's ability to oversee strategy, 51 percent of U.S. public company directors surveyed by the National Association of Corporate Directors said that lack of sufficient agenda time for in-depth strategy discussion was a top concern.[10] With the amount of risk and compliance-related topics on the board's plate, finding time for deep dives into strategy is not easy.

Visionary boards make time for the strategy discussion a priority. Herta von Stiegel says that it takes a lot of discipline to limit the time spent looking backward. She has found it helpful to empower the committee chairs to take deep dives on the more performance and compliance-oriented discussions. "This takes trust and you have to have the right people and the right chairs for it to work." Boards looking to reorient their agendas to make them more forward-looking might find of interest the sample agenda included in the prior WCD Thought Leadership Commission report, *Seeing Far and Seeing Wide: Moving Toward a Visionary Board,* and reprinted in the appendix of this report.

Broaden the discussion

Author Michael Lewis, whose best-selling books include *Liar's Poker, The Big Short,* and *The Undoing Project,* spoke at the 2018 KPMG Board Leadership Conference and described his approach to his books. He talked about how you do not get anywhere if you start with a theory of the story and then look for things to plug in; instead he "wanders around" to get the real story. Lewis' approach counters confirmation bias, and is instructive for the boardroom. Relying only on the information provided to the board in support of a proposal is simply not enough—board members need to "wander around" to get the full picture. As Monique Leroux says, "Sometimes you start, as a board member, with a simple question and you discover, after a discussion with management, that this question was fundamental and very strategic."

Connie Collingsworth recommends that the board chair "be aware of the board's body language," and solicit input from directors who may be reluctant to speak up. Reference to the "hidden profiles" experiments can help the chair remember that all the relevant information may not come out in conversation naturally, and extra efforts to get all the input on the table may be warranted. One commissioner described a CEO search on one of her boards, in which the chair's probing of each board member helped raise questions about a candidate for CEO whom many of the board members supported. As a result, the board agreed to gather additional information, "which potentially kept us from making a bad decision." And be careful not to fall into groupthink. Fortunately, in many boardrooms, "while boards are collegial and there may be a tendency to want to be supportive, directors are much less likely today to withhold concerns in the interest of getting along," says Susan Tomasky.

Look to experts, but do so thoughtfully

Visionary boards welcome experts but are careful not to defer unduly. As the authors of "Intelligent Boards Know Their Limits"[11] write, expertise, diversity, and inquiry are key practices that make a board "intelligent." They add a caution with regard to experts, however: "this presents the perfect setting for a wrong decision

Understand the decision-making culture

For directors who serve on boards outside their home country, knowledge of the culture as it affects decision-making is important. Jenifer Rogers, who is steeped in both American and Japanese culture, explains the difference between the two: "In Japan, most of the board consists of members of management who have been with the company their whole careers and haven't had been exposed to diverse opinions. It's a consensus culture, so it's a very different dynamic compared to other countries where you have more critical, interactive dialogue. Because of the importance placed on consensus, it takes longer to make a decision. But once the decision is made they can move forward with no resistance because everybody's on board. The decision-making takes longer but the implementation is quick and quite smooth. Contrast this to decision-making in the United States, where "you might make a decision as a company (usually top-down) much quicker and then you sort of figure it out. As a consequence, people's buy-in and other issues come out over time and implementation can be messy and take longer than planned." As Phyllis Campbell says, decisions made at the top may be resisted deeper in the organization, and implementation is silently challenged. "There may be a reluctance to change, and if a decision is top down, it may result in 'organ rejection.'"

Such cultural norms are deeply embedded and slow to change. Directors on visionary boards understand how culture impacts decision-making, and use emotional intelligence to push for effective decisions in a manner that works with the culture.

if boards do not seek 'intelligence' by inquiring further and testing the so-called experts." Beware of the halo effect – an expert's area of true expertise may be narrower than it appears.

Mine diversity to maximize value

Consider what one of Marty Evans' boards calls a "gallery walk," as a means of mining the diversity of experience in the room. Rather than observing or providing a presentation on a topic, a few members of management are posted at stations around the room to provide information on a topic in a more informal setting. A few small groups, consisting of a mix of board and senior management, move from station to station. The interesting part, as Marty found, was that the groups often had different discussions on the same topic due to the different perspectives among the groups. "We always have a debrief with everybody involved. And a couple of times, we couldn't believe how different the conversation was for the same alleged topic," she says. For the right board and the right set of topics, this can be a very interesting way to bring out diverse viewpoints and discussions to enrich the board and management's shared understanding of a relevant topic.

"Sometimes you start, as a board member, with a simple question and you discover, after a discussion with management, that this question was fundamental and very strategic."

— Monique Leroux

The value of diversity

Boards benefit when they are able to tap into diversity of experience. There is also evidence that gender and racial/ethnic diversity—independent of background, experience, or skill set—impacts the group dynamic in a positive way. As Columbia Business School Professor Katherine Phillips sums up in her article, "How Diversity Makes us Smarter":

"Decades of research of organizational scientists, psychologists, sociologists, economists and demographers show that socially diverse groups (that is, those with a diversity of race, ethnicity, gender and sexual orientation) are more innovative than homogeneous groups. It seems obvious that a group of people with diverse individual experience would be better than a homogeneous group at solving complex, non-routine problems. It is less obvious that social diversity should work in the same way—yet the science shows that it does. This is not only because people with different backgrounds bring new information. Simply interacting with individuals who are different forces group members to prepare better, to anticipate alternative viewpoints and to expect that reaching consensus will take effort."

Phillips explains why:
"Members of a homogeneous group rest somewhat assured that they will agree with one another; that they will understand one another's perspectives and beliefs; that they will be able to easily come to a consensus. But when members of a group notice that they are socially different from one another, they change their expectations. They anticipate differences of opinion and perspective. They assume they will need to work harder to come to a consensus. This logic helps to explain both the upside and the downside of social diversity; people work harder in diverse environments both cognitively and socially. They might not like it, but the hard work can lead to better outcomes." [12]

Use techniques that help to counter biases

Embed contrary views into the process
Before a significant decision is made, visionary boards insist on having the full picture – the negatives as well as the positives. Because groupthink and overconfidence can derail efforts to bring in the full range of information and opinions, certain techniques can help encourage and normalize the airing of contrary views. The techniques work because the competitive juices flow – if a person is assigned to develop a contrary view they will do the best possible job, and because the contrary view has been propounded in conjunction with a defined process, it is less likely to put the CEO (or other proponent of the proposal) on the defensive. Consider:

— Red team/Blue team – Members of management, consultants, and/or board members are assigned to advocate for different points of view.

— Devil's advocate – Someone is assigned to present the best possible facts and arguments in opposition to the path that has been recommended.

— "Write your own activist letter" – One Commissioner described a process by which the board went through an exercise of putting themselves in the position of activists and drafting a highly critical letter.

— Pro and con scorecard – Each board member is asked to provide as many reasons as they can in support of a significant decision and then separately to provide as many reasons as they can in opposition.

— Seek out contrarians – Anything from articles and op-eds to analysts and activists, external contrarian voices can bring a different perspective to the worldview of the board. Baking this concept in when setting the board agenda helps it stay top of mind and brings the contrarian viewpoint in outside the context of a crisis.

Keep the "anchors" away
Clean sheet assessments help avoid the anchoring problem. A study of capital allocation in companies over a 20-year period found that annual allocations tended to remain within a 10 percent variation range compared to the prior year. Yet the study also showed that companies that rebalance their capital allocation regularly—investing on the basis of performance rather than anchoring—do better.

In the boardroom, an anchoring view is often the one propounded by a particularly vocal director. The walk-away price for a potential acquisition, the degree of difficulty in a CEO's goals, the extent to which the company will invest resources in new and unproven technologies—all of these are easily influenced by this dynamic. As noted in Chapter 1, if the anchoring view is not accurate, this may lead to what Kahneman refers to as "correlated errors." A strong chair can prevent anchoring by seeking each director's viewpoint independently outside the boardroom prior to the discussion of a difficult issue. By asking the question in advance of the board meeting one on one without expressing a view, the chair may receive valuable input and be able to lead a richer discussion.

Conduct a "pre-mortem"

The "pre-mortem" concept is a useful way of doing a deep dive into risks that can prevent the success of a strategic decision. It is an exercise in which the group starts with the assumption that the decision did not have a good outcome. The board, ideally along with management, discusses what might have gone wrong, and in this way often flushes out risks and biased assumptions while there is still time to course correct.

As Christie Hefner says, "Successful businesses foster a mindset of confidence if not hubris. Unfortunately it frequently takes a crisis before all of the assumptions are examined. What we're talking about is fostering an environment in which you are doing that regularly." Kahneman describes the pre-mortem as "low cost, high pay-off," in that it often surfaces issues that enable management to improve the plan. He references a time when he mentioned it at a discussion in Davos, and was told by the chairman of a large corporation that the idea was "worth coming to Davos for."[13]

Create the right conditions for forward-looking decision-making

Visionary boards:

— Create an agenda that allows significant time for forward-looking discussion of factors potentially impacting company strategy.

— Probe management's process when significant proposals are presented—have they pressure-tested the critical assumptions, considered contrary views and assessed alternative options, and do they understand and are they prepared to identify and respond to the key changes in the external environment that create the top risks to the proposal?

— Exercise leadership, emotional intelligence, and cultural sensitivity to bring the broadest possible range of information and perspectives into the boardroom conversation before conclusions are reached.

— Admit to innate decision biases without defensiveness, and incorporate appropriate processes and techniques to counter their potential influence.

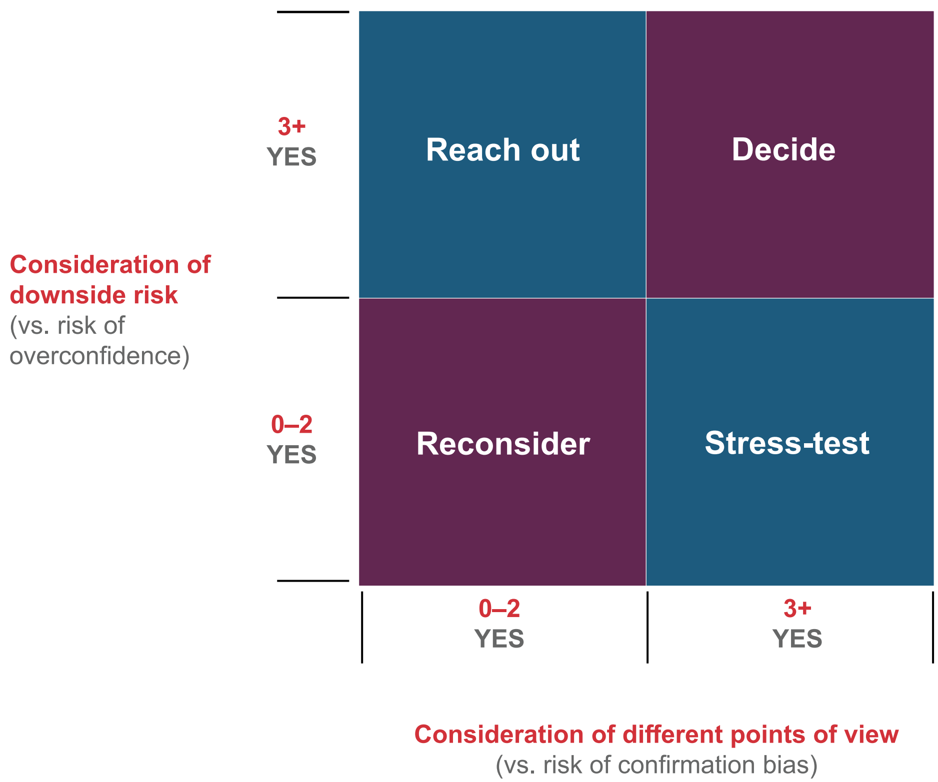
Decision-making checklist from McKinsey & Company

Consideration of different points of view	YES or NO
Have the recommenders checked their assumptions?	
In their analysis, have they considered factors that would make the project exceed its initial goal?	
Have they compared their assumptions with those made for a comparable external project?	
Have they compared their assumptions with those made for a comparable internal project?	
Have the recommenders iterated a diverse set of opinions?	
Have they assembled a diverse team for the decision-making process?	
Have they discussed their proposal with someone who would most certainly disagree with it?	
Have they considered at least one plausible alterative to the course of action being recommended?	
Total "yes" answers	

Consideration of downside risk	YES or NO
Inside the organization, what are this decision's two most important side effects that might negatively affect its outcome? Have the recommenders considered these side effects?	
Side effect A	
Side effect B	
In the company's industry, what are the two most important potential changes that might negatively affect the outcome of this decision? Have the recommenders considered these changes?	
Potential industry change A	
Potential industry change B	
In the macro environment, what are the two most important potential changes that might negatively affect the outcome of this decision? Have the recommenders considered these changes?	
Potential macro-environment change A	
Potential macro-environment change B	
Total "yes" answers	

Screening matrix

(Use the totals from the decision-making checklist)



Source: Philip Meissner, Olivier Sibony, and Torsten Wulf, "Are you ready to decide?" *McKinsey Quarterly*, April 2015.

Chapter 4

Evaluate and enhance

> **If I had an hour to solve a problem, I'd spend 55 minutes thinking about the problem and 5 minutes thinking about the solution.**
>
> **— Albert Einstein**

Continuous improvement requires robust assessment and follow-up. Visionary boards use evaluations for overall continuous improvement, and also to drill down into specific capabilities such as decision-making.

Get serious about evaluations of the board and individual directors

"It's all about accountability," says Jan Fields. Expectations for board members have increased, and evaluations are increasingly an area of focus. Yet in a study conducted by the Rock Center for Corporate Governance at Stanford University and The Miles Group, while 66 percent of directors rated their board as highly effective at accurately assessing CEO performance, only 36 percent said they were highly effective in assessing the performance of board members. Only 23 percent rated their boards as very effective at giving direct feedback to fellow directors, and 54 percent said that if they had sole power to do so, they would have one or more members of the board removed.[14] And for public company boards, investors are watching. In a survey of institutional investors conducted by Rivel Research Group, a combined 56 percent of investors surveyed said that in their view companies do not assess their boards very well or do so "very poorly," and only 28 percent believe that directors take the evaluation process "very seriously."[15]

"When done effectively, board assessments provide the board with an opportunity to identify and remove obstacles to better performance and to highlight what works well," writes search firm Spencer Stuart in "Performance in the Spotlight." "They give directors a forum to review and reinforce appropriate board and management roles, ensure that the board has the right perspectives around the table, and bring to light issues brewing below the surface. A robust assessment can help ensure that the board is well-equipped to address the issues that drive shareholder value."[16] The firm suggests a focus on the following questions:

1. How effectively do we engage with management on the company's strategy?
2. How healthy is the relationship between our CEO and the board?
3. What is our board succession plan?
4. What is our mechanism for providing individual director feedback?
5. What is our board culture and how well does it align with our strategy?
6. What processes are in place for engaging with shareholders?

In "Enhancing evaluations for boards, committees and directors,"[17] the KPMG Board Leadership Center recommends that boards consider the evaluation process in four buckets: who will be evaluated, what will be evaluated, who will do the evaluating, and how the assessments will be obtained.

Even though evaluation of individual directors is widely considered a leading practice, only 41 percent of U.S. public companies and 23 percent of U.S. private companies responding to a survey by NACD engage in these evaluations.[18]
In addition to self-evaluation of the board and committees, peer evaluations should be used as a means of holding individual directors accountable and helping them recognize opportunities for improvement. Periodic assessments facilitated by a third party also bring significant insight into the boardroom. Input from management also brings a valuable and productive perspective.

“If you make the right call, reviewing how you made the call and ensuring you don’t miss any gates going down the hill each time is important to do.”

— Maggie Wilderotter

As they assess the strength of their evaluation processes, KPMG recommends that boards consider the following:

— Do we tailor the process to the needs of the board and avoid “check the box” evaluations?

— Is the process sufficient to gain deep insight into the effectiveness of the full board, the committees, and individual directors, including input from management and periodic use of a third-party evaluation process?

— Do we allocate sufficient time to discuss the results of the evaluation and develop concrete plans for improvement?

— Do we monitor progress against our continuous improvement goals and hold ourselves accountable for meeting them?

— Do we stay current on leading practices in board evaluations and incorporate relevant practices to enhance our process and keep it fresh?

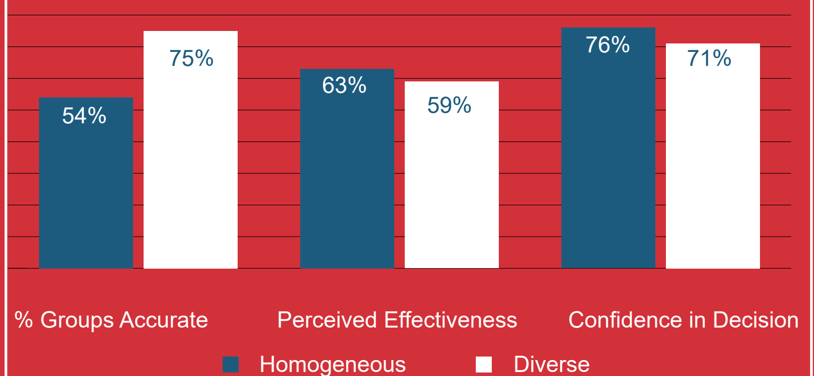
— Do we approach evaluations with a spirit of candor and accountability?

— Do we disclose enough about our evaluation process to instill confidence in our investors?

Nondiverse boards: Perceived effectiveness can be misleading

Diversity and homogeneity within groups impacts evaluations of decision-making as well as the decisions themselves, finds Columbia Business School Professor Katherine Phillips. In a study, she asked groups of participants to determine the answer to a problem that had only one correct answer, and then asked those same groups to evaluate how well/effectively they worked together and how confident they were that they had the right answer. Some of the groups were homogenous and some were diverse. Here were the results:

Homogeneous group overstate their effectiveness



Source: Katherine Phillips

“[Based on the data] homogeneous groups [can be] delusional,” she writes. “They thought things went well and they were confident they had the right answer. The diverse groups modulated their confidence in a way that was correlated with their actual performance. In the real world, we often don’t know what the right answer is and all we have to go off of is the confidence and feelings of the group. ***If homogeneous groups are more confident and feel better about their group experiences we might easily be lulled into believing that they are more effective groups.****” This example of overconfidence may well be the most challenging of all.*

A toolkit for evaluating communication

"For the decision process to be effective, board members need to understand how their brains work", write INSEAD's Ludo Van der Heyden, Alan Zeller and Anil Gaba, in "Intelligent Boards Know Their Limits". One tool to consider is the fair process leadership (FPL) model developed by Van der Heyden. The model seeks to "engage, explore, explain, execute and evaluate, ensuring leaders 'listen well, ask more and tell less'," write Van der Heyden and Ian Woodward in "INVOLVE – A Toolkit for Fair Process Communication."

FPL is an integrative approach that emphasizes high levels of transparency and open engagement with stakeholders. Communication effectiveness can be assessed by using the INVOLVE toolkit.

An adapted toolkit can be found in the Appendix and the original is available at ***INSEAD.edu.***

Evaluate decisions and the decision process

"A good decision-making process that produces good decisions is the best measure of the effectiveness of a board," write the authors of "Behind closed doors: decision making in the boardroom."[19] Timely and thoughtful post-mortems can be a helpful spur to continuous improvement. For decisions that went poorly, a post-mortem on the decision-making process can offer lessons learned for the future. Evaluation of decisions that went well can be equally valuable, if not more so. "If you make the right call, reviewing how you made the call and ensuring you don't miss any gates going down the hill each time is important to do. You can codify what created the right environment for the board to make a good decision on behalf of the shareholders," says Maggie Wilderotter.

Continue the conversation

Marina Brogi emphasizes the importance of setting a timetable and deadline to assess the outcome of a strategic decision. She says, "I'm not sure that always happens. If things go wrong, there needs to be a moment when you say look, this isn't working like we had expected.'" Visionary boards recognize the importance of ongoing assessment and forward-looking discussion. Even the best decisions can fail to work out if circumstances change, and visionary boards set a tone of vigilance and readiness to adapt. For a significant strategic decision, for example an entry into a new geography or line of business, visionary boards not only ask to see results, but also assess how well management is staying on top of changes in the environment that can affect the outcome, and how ready management is to adapt when change inevitably occurs.

Communicate with investors

Investors who are not present in the boardroom are seeking greater visibility into the workings of the board. Institutional investors increasingly want to hear from the board members of the public companies in which they invest, to understand the company's strategic capabilities and the board's role in providing guidance. Visionary boards seek to build trust with their largest investors through disclosure and engagement. Helping them to understand the quality and continuous improvement mindset of the board's approach to decision-making can go a long way toward building that trust.

Evaluate and enhance

Visionary boards:

— Are deeply committed to assessment and continuous improvement—of the board, committees, and individual directors.

— Assess and seek to continuously improve the evaluation process itself, staying current on leading practices in board evaluations and incorporating relevant practices to enhance the process and keep it fresh, including:

  – Seeking input from outside the boardroom, including management and investors, on their perception of the board's effectiveness and their experiences interacting with the board/individual board members

  – Periodically engaging in assessments facilitated by a third party

  – Ensuring accountability for action suggested to address evaluation findings

— After a significant decision, evaluate both the results and the decision-making process.

— Communicate to investors the board's commitment to quality decision-making aided by attention to process and continuous improvement.

Conclusion

The Commissioners represent a cross-section of highly respected, thoughtful, and forward-looking board members spanning many of the best companies in the world. In interviews, they each described challenges at some point during their management careers or board service in which information that would have made a decision better was missing, group dynamics made for a challenging discussion, a spirit of reflection and interest in improvement were lacking, or acceptance of the need for change came too late.

It would be simplistic to say that there is a formula that would help companies remain competitive as the external environment and competitive forces change. Every situation is different, and even the best decisions are made only as of a point in time—a new technology or a natural disaster can change the results in the blink of an eye.

What we can do is consider how we all, as humans, make decisions, and how common factors can influence decisions, whether the question is whether to change a business model; hire or fire a CEO; buy, sell, or enter into a strategic alliance; or any other tough issue. This report has drawn on the bodies of research that help us understand and improve our decision-making capabilities, and married this with the insights and experience of the Commissioners to take a close look at the influences and develop practical recommendations to help boards do what WCD devotes itself to encouraging—move toward a visionary board.

To summarize, to sharpen their decision-making skills, visionary boards:

- Develop awareness of innate influences such as cognitive biases and mental shortcuts.
- Consider the implications in both management decision-making and the boardroom, and ask:
  - Is undue preference given to information that confirms a desired result, while information that counters the desired result is discredited?
  - Are decisions overly influenced by initial, anchoring information?
  - Is there pressure toward groupthink?
  - Is overconfidence in a strategy or an individual leading to blind spots?
  - Are we too invested in the status quo, or too risk averse, to quickly recognize and act upon necessary change?
  - Have we asked the question, “what else do we need to know?”
- Set high expectations for management to develop and continuously improve a company data strategy for relevant business analytics and identification of early signals of internal and external change.
- Take a clean sheet approach to the materials provided to the board—with input from each board member, and work with management to develop a common understanding of what the board needs to see.
- Consider the fundamentals on which the board needs to remain educated—factors impacting strategy, risk, and talent—and strategically design a mix of internal and external initiatives to bring in a sufficiently wide range of information to supplement the board materials.
- Create an agenda that allows significant time for forward-looking discussion of factors potentially impacting company strategy.
- Probe management’s process when significant proposals are presented—have they pressure-tested the critical assumptions, considered contrary views, and assessed alternative options—and do they understand and are they prepared to identify and respond to the key changes in the external environment that create the top risks to the proposal?
- Exercise leadership, emotional intelligence and cultural sensitivity to bring the broadest possible range of information and perspectives into the boardroom conversation before conclusions are reached.
- Admit to normal, innate decision biases without defensiveness, and incorporate appropriate processes and techniques to counter their potential influence.

- Are deeply committed to assessment and continuous improvement—of the board, committees and individual directors.
- Assess and seek to continuously improve the evaluation process itself, staying current on leading practices in board evaluations and incorporating relevant practices to enhance the process and keep it fresh, including:
  - Seeking input from outside the boardroom, including management and investors, on their perception of the board's effectiveness and their experiences interacting with the board/individual board members.
  - Periodically engaging in assessments facilitated by a third party.
  - Ensuring accountability for action suggested to address evaluation findings.
- After a significant decision, evaluate both the results and the decision-making process.
- Communicate to investors the board's commitment to quality decision-making aided by attention to process and continuous improvement.

Appendix

For those boards that are interested in deepening their efforts in this area, we include key references for consideration:

Thinking, Fast and Slow, Daniel Kahneman

Predictably Irrational, Daniel Ariely

The Diversity Bonus, Scott Page

Finding the Space to Lead, Janice Marturano

The Visionary Board at Work: Developing a Culture of Leadership, 2017 WCD Thought Leadership Commission

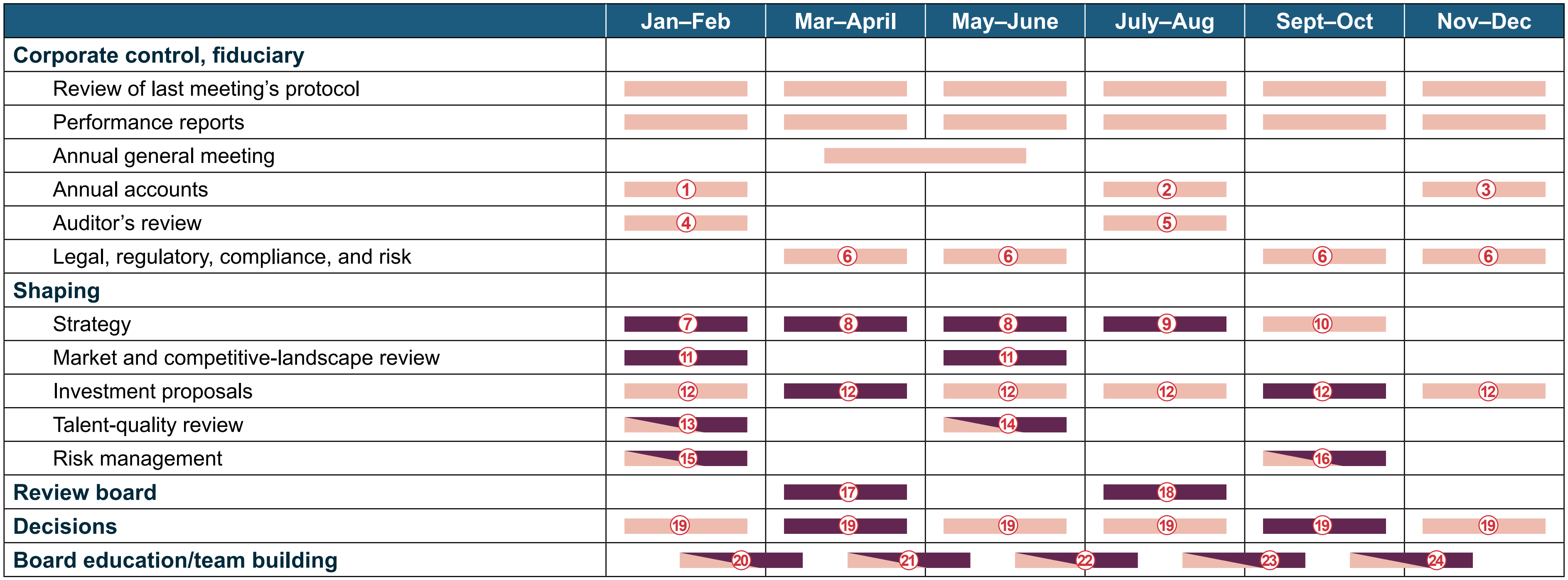
Seeing Far and Seeing Wide: Moving toward a Visionary Board, 2016 WCD Thought Leadership Commission

Enduring across Generations: How Boards Drive Value in Family-owned Businesses, 2015 WCD Thought Leadership Commission

Going beyond Best Practices: The Role of the Board in Effectively Motivating and Rewarding Executives, 2014 WCD Thought Leadership Commission

The following proposed agenda for a future-focused board, from McKinsey and Company, was included in the prior WCD Thought Leadership Commission report, *Seeing Far and Seeing Wide: Moving Toward a Visionary Board*, and is reprinted here:

Traditional board agenda   Additional, forward-looking activities



Details on selected activities (all others are self-explanatory, as labeled)

Fiduciary
1 Annual accounts
2 Annual budget directives
3 Next year's budget
4 Auditor's report
5 Audit-planning approach
6 Audit-committee reviews

Strategy
7 Set frame for the year
8 Define broad options
9 Outline/select options
10 Approve final strategy approach
11 Review strategic and competitive positon, key performance indicators

Investment
12 Engage in ongoing review of investment proposals

Talent
13 Set talent-review objectives for the year
14 Review top 30–50 people

Risk
15 Determine risk-review objectives for the year
16 Conduct annual risk review, including mitigation approaches

Board reinvention
17 Conduct board 360° evaluation
18 Determine approach for board-process enhancement

Decisions
19 Engage in decision making—e.g., on budgets, investments, M&A, and key nominations

Board education
20 Travel with sales staff, customer visits
21 Visit R&D facilities
22 Visit new geographies
23 Inspect production sites
24 Attend customer conference

Source: Christian Casal and Christian Caspar, "Building a forward-looking board," *McKinsey Quarterly*, February 2014.

INVOLVE Toolkit

Fair process leadership – Communication diagnostic

This is a questionnaire to assess readiness of organizations, teams, and leaders to deploy fair process. Individuals and/or teams/organizations can take it to create collective. An initial benchmark score can then be retested over time to assess progress and calibrate expectations and perceptions.

Instructions: For each question, give a score between 1 and 10 where 1 is very poor and 10 is exceptional. Description of scoring is given in the next page. It is recommended that the assessment be taken at various times in the process of implementing fair process in which leaders, teams, and organizations can recalibrate effective communication preparedness and performance over time. *The tool below has been adapted.*

Question	Individual	Committee	Board
1. Clarity of Goals and Objectives: When I/we work with others, is the context clearly specified, including the goals and objectives pursued?			
2. Shared Values: Do I/we present myself or ourselves in a way that ensures we represent respect, integrity, trust, and inclusion at all times?			
3. Trusted and Available Leaders: As a director, am I or is the board, open, trustworthy, and an active listener who is available to executives and others on the board when I am/they are needed?			
4. Active Listening in an Inclusive Environment: Do I/we show and clearly display effective interpersonal communication styles that emphasize active listening, inclusion, and awareness of individual differences? When I/we work with others, is the environment created open and participative?			
5. Constructive Dialogue: Do I/we demonstrate communication based upon constructive dialogue and interaction when we communicate with one another? That is, do I/we listen and ask more than we tell?			
6. Giving Time and Respect: Do I/we always display mutual respect and give time to others to express opinions and to fully explain decisions?			
7. Protocols and Procedures: Do I/we use agreed and clear protocols, procedures, or rules of engagement to support effective communication in my/our organizational groups or teams?			
8. Processes: Do I/we use structured and clearly understood processes to ensure I/we generate ideas, plan for informing others of my/our decision, and debrief on progress in a timely and relevant way?			
9. Systems: Do I/we have the communication systems and technologies at hand that are easily accessible by all who need to know information in a timely way?			
10. Evaluation: Do I/we use open and transparent evaluation information processes and systems as well as make rewards for individuals and teams based on objective measures and agreed business approaches or outcomes?			
Segment Total X/100			
Add three segment columns above and divide by 3—total is out of 100—to give an overall result integrating self, team, and organization.			

INVOLVE Toolkit

Scoring

These scores are standardized indicative band ranges based on field use to date for validity rather than absolute prescriptive measure. However, as a team or organization uses the diagnostic, these may be reliably calibrated over time for the respective population.

Score %	Fair process leadership: Effective communication preparedness and performance
80% to 100%	**Strong**
	Individuals, teams, and organization are highly oriented towards implementing fair process leadership in communication culture and practices reflected in behaviors and values. Core principle is to **INVOLVE with Deep Engagement.**
60% to 80%	**Moderate to Strong**
	Individuals, teams, and organization are well positioned to implement fair process leadership in practice. There is demonstrable evidence of open, inclusive and clear communication culture and practices emerging as capabilities. Implementing fair process would reinforce these approaches. Core principle is **Emerging Engagement with potential to INVOLVE.**
30% to 60%	**Low to Moderate**
	Individuals, teams and organization will find difficulty implementing fair process leadership in practice. Substantial effort in building open, inclusive, and clear communication culture and practices should be built as leadership and management capabilities. However, implementing aspects of fair process leadership (especially at team level) may be a beneficial catalyst to building these capabilities in tandem. Core principle is **Inconsistent Consultation.**
0% to 30%	**Very Low**
	Individuals, teams, and organization will find considerable difficulty implementing fair process leadership in practice. Fundamental work in building open, inclusive and clear communication would be a precursor to implementing fair process leadership. Core principle is **Direct Compliance** rather than deep and authentic Engagement.

Source: Ian C. Woodward, Elizabeth A. More, Ludo Van der Heyden (2016) "Involve – The Foundation for Fair Process Leadership Communication," INSEAD Working Paper Series 2016/17/OBH/TOM/EFE.

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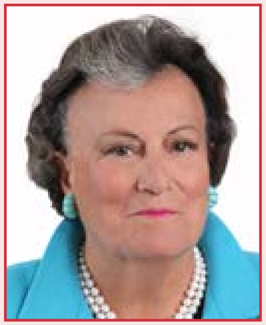

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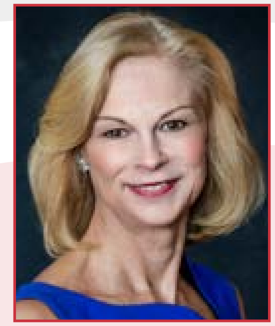

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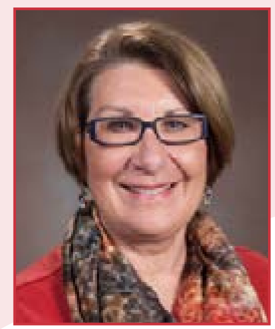

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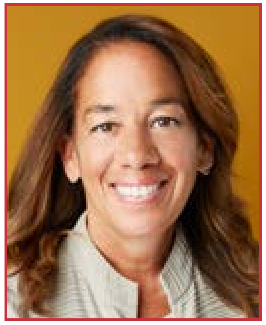

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For more information

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