Balanced decision-making: dealing with blind spots

A study within management boards of small and medium-sized banks

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The Dutch Authority for the Financial Markets

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Table of Contents

Summary

The AFM studies the organisational culture of financial companies. The culture of a company determines what employees consider important or what they believe is considered to be important. This gives rise to behaviour patterns. A healthy organisation is an organisation in which the customers' interests are served. Balanced decision-making plays an important role in this. Fair treatment of customers requires that the customers' interests are taken into account in a balanced manner in the weighing of interests. It is the AFM's aim to ensure the fair treatment of customers.

The weighing of interests within a company takes place mainly within the decision-making process of strategic issues. Due to the impact of strategic issues, it is important that the management board weighs the interests of all stakeholders, including the customers' interests, in a balanced manner. In recent years, most banks have given the customers' interests a more prominent place in their strategy and core values. However, this AFM study shows that the weighing of various interests does not always take place in a balanced manner.

Decision-making is influenced by subconscious processes that can lead to errors of judgement in the decision-making process. For example, previous experience with an issue may cause one to regard this issue more positively or negatively. Or tunnel vision can occur causing one to assign more weight to certain arguments than others. Such processes lead to blind spots in the decision-making and prevent a balanced weighing of interests. Practically every organisation and management board have their own blind spots.

In science, a lot is already known about subconscious processes that play a role in decision-making. However, little is known yet about the effect of this in practice within management boards in the financial sector. This publication aims to make a contribution to this and offers concrete and applicable insights regarding how management boards can improve their decision-making process. These insights are relevant for management boards and management teams, but also for departments such as Compliance, IAD and Risk, that supervise a balanced decision-making process and the safeguarding of the customers' interests.

Five small and medium-sized banks participated in a study of the AFM of the processes that influence strategic decision-making of a management board. This study showed a number of good examples that contribute to the quality of the decision-making process. For instance, the chair encourages board members to voice their opinions and to bring different perspectives forward, management boards are critical regarding the substantiation of a decision and a structured process increases the likelihood of well-substantiated decisions.

The AFM study also identified two blind spots that hinder balanced decision-making. These blind spots are the result of a shared frame of reference of board members and a lack of reflection on the group process.

The shared frame of reference of board members can lead to tunnel vision. The board members that participated in the study have strongly shared opinions based on experience, beliefs and behaviour. These opinions form a shared frame of reference and lead to a partial interpretation of observations (from one or a limited number of perspectives), whereby other explanations are ignored or overlooked. The shared frame of reference, which is maintained because many board members have been working together for a longer period of time and come from within the organisation (or comparable organisations), can lead to a form of tunnel vision. On 1 January 2017, board members of the examined banks were members of the board for on average 8 years and employed by the own organisation or a predecessor for on average 15 years. The consequence of tunnel vision is that arguments that support the frame of reference are not or hardly not debated. And that risks that do not logically fit in the shared frame of reference are not discussed and/or taken into account in a balanced manner. When the customers' interests are not clearly part of the shared frame of reference, the risk exists that these interests will also play a smaller role in the overall weighing of interests.

In addition, it appears that the majority of the examined boards do not reflect much on the influence on decision-making of aspects such as group dynamics and confidence in role responsibility. The influence of group dynamics is hardly recognised as part of a balanced decision-making process. This could cause boards to oversee the influence of their behaviour on how decisions are made and not be able to take this into account in their guidance. Placing too much confidence in role responsibility can form an obstacle because it prevents board members from asking each other critical questions. Board members rely on each other's roles. As a result, assumptions are insufficiently verified and the real dilemmas are not always discussed.

Due to the shared frame of reference, some banks focus mainly on customer satisfaction instead of the customers' interests. Bank that have a strong focus on their role in society and that regard customers as part of their corporate social responsibility generally look further than customer satisfaction. There is more shared responsibility for the customer's interests among board members. The customer is a topic of discussion more often during board meetings and it is discussed whether products and services are suitable for the customer, now and in the future.

Although there will always be blind spots that influence the decision-making, there are ways to reduce the impact of these blind spots. Reflection is the first step that is necessary to become aware of undesired blind spots. Awareness is a continuous and difficult process. Nevertheless, there are a number of useful questions and techniques that can help management boards to identify their blind spots and limit their influence on decision-making. Chapter 5 discusses these questions and techniques in more detail, such as the pre-mortem technique. This technique encourages board members to think outside the box and can result in getting important perspectives that normally receive little or no attention. The report is concluded with a useful handout that briefly describes various techniques.

1. The necessity of a balanced weighing of interests

Balanced decision-making is characterised by weighing the interests of all stakeholders, including the customers' interests. One of the principles of the AFM's supervision is a fair treatment of customers. This requires that customers' interests are weighed carefully. This weighing of interests takes place primarily within the decision-making process with regard to strategic issues.

However, balanced decision-making is limited by too little attention for subconscious processes that play a role in decision-making. Examples of these subconscious processes are previous experiences with issues that causes one to regard them more positively or negatively or the prevailing dynamics of the organisation. Scientific research shows that subconscious processes strongly influence a decision and can lead to a suboptimal decision.[1] It is assumed that the right decision is being taken but certain signals that could prove the opposite are ignored subconsciously.

Decision-making is balanced when information about risks, dilemmas and possible alternatives is discussed.[2] This helps to exercise good judgement and can counter possible tunnel vision. In addition, it is important that various perspectives are discussed, including the customer's perspective, and that the decision is substantiated in an objective manner.[3] The substantiation is thorough when analyses, customer surveys and research have been carried out, and when distinction is made between facts and assumptions. There must be sufficient room in the meeting in which a decision is being discussed for opposition and critical thinking.[4] Board members must be able to call each other to account on each other's responsibilities, and they must ask specific questions and make an effort to ensure that information that is missing is brought forward.[5] The above-mentioned elements play a role in a general sense in decision-making, but are particularly important where strategic decisions are concerned.

Scientific research shows that organisations that actively work on reducing the negative effect of subconscious processes in decision-making yield a higher return on investment.[6]

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[1] Tversky & Kahneman (1974).
[2] Paternoster & Pogarsky (2009).
[3] Adams et al. (2011).
[4] Edmondson (1999).
[5] Kahneman et al. (2011).
[6] Lovallo & Sibony (2010).

2. Behaviour and culture supervision by the AFM

Stimulating new developments and breaking through conventional behaviour patterns in the market play an important role in advancing the sector. The AFM's Behaviour & Culture team, part of the Expertise Centre, does this by combining the practice of supervision with scientific insights and knowledge in the field of the psychology of supervision.

This team studies the organisational culture of financial companies. The culture of a company determines what employees consider important or what they believe is considered to be important. This gives rise to behaviour patterns. The culture influences the behaviour of employees and vice versa. A healthy organisation culture consists of various building blocks. The right conditions for balanced decision-making is one of these building blocks. Another building block that the Behaviour & Culture team studied and has published about is learning from errors.[7] The AFM examines these building blocks based on both scientific publications and the relevance for supervision, and would like to discuss with the sector which other building blocks are the most relevant.

More insight into how decision-making takes place within financial companies helps the AFM to understand companies better and to improve its supervision. For example the AFM applies the insights from this study in its supervision of the product development and review process in which decision-making plays an important role.

Study design

Strategic decision-making within the management boards of five small to medium-sized bank was studied. The decision-making process and the impact of subconscious processes on weighing the customers' interests were examined for 31 strategic decisions based on a scientific assessment framework. This was carried out by means of desk research of 183 underlying documents, which were submitted to the boards for decision-making, 41 interviews with board members and submitters of decision-making documents and 6 observations of board meetings. By attending board meetings and conducting in-depth interviews, it was attempted to do justice to the decision-making process in actual practice in as far as possible.[8]

Figure 1: Scope of the study

[7] The report 'Learning from errors; towards an error management culture' can be found on the AFM website.

[8] Reference is made to the annex for more information about the research methods.

3. Good examples that enhance the quality of decision-making

The study shows that all five of the management boards pay attention to the quality of decision-making and continue to make an effort to improve this. For instance, the chair often takes on a facilitating role, management boards have a critical attitude with regard to the substantiation of decisions, and a well-structured process prior to the board meeting increases the likelihood of substantiated decisions.

The chair is aware of his/her role in the decision-making process and actively thinks about how he/she can best fulfil this role. The chairs of the banks in the study adopt a contemplative attitude and actively provide room for discussion. They do this by consciously not being the first to adopt a position, by explicitly inviting other board members to express their opinions, by also involving non-board members in the discussion, and when the discussion threatens to stall they try and keep the discussion going by asking questions or adopting a different position. An open attitude of the chair ensures that people dare to express their opinions so that different perspectives from various departments, functional disciplines or stakeholders are discussed.

Board members consider it important that proposals submitted for decision are well substantiated and ask in-depth questions to understand the issue better and to sharpen the decision. All banks in the study make use of internal and/or external information, such as numbers of customers, management information, business cases, comparisons with competitors, market research, customer surveys or signals and complaints from customers. In addition to in-depth and factual substantiation, board members also observe that not all information can be expressed in numbers and facts, and that therefore room should be left for intuition.

In-depth questions are asked during board meetings in order to understand the issue better and to sharpen the decision. Board members are alert with regard to information that is lacking in the decision. In such cases, board members ask that this information be provided before a decision is taken.

In general, the submitters of a decision document are present during the discussion in the board meeting. These persons have more information than the board members so that a decision can be discussed in greater detail.

A structured process prior to the board meeting improves the quality of the decision-making. Although not all banks in the study have a formalised process prior to the decision-making in the board meeting, they do agree that a structured and uniform process prior to the board meeting improves the quality of the decision-making. Good examples of a structured and uniform process that were found in this study are a uniform cover page that has to be filled in by the submitters, having fixed agenda items and agreements about the subjects that have to be dealt with in the preparatory documents. In general it was found that banks that have agreed on a structured and uniform process, documents are more complete and well-balanced. They contain a clear question for the board and description of different perspectives and concrete risks and dilemmas.

4. Blind spots that hinder balanced decision-making

In spite of the fact that boards pay attention to improving the quality of decision-making, the study shows a number of blind spots in the decision-making that the boards in this study generally do not take into account, but that do have an influence on balanced decision-making.

Management boards do not appear to be aware of the influence of their shared frame of reference on decision-making. There are strongly shared beliefs in the management boards of the banks in the study. These shared beliefs mainly arise from the organisation's raison d'être or the stage of growth that the bank is currently in. This varies from a strong focus on corporate social responsibility, a natural focus on innovation, or a history of survival and growth with the necessary accompanying focus on action and proving itself. The shared beliefs within the management boards are reflected in the mission, vision and strategic objectives of the bank. They form the implicit frame of reference from within which people think and act within the bank: *"It starts with the question whether it is in line with the mission"*.[9] The shared frame of reference is maintained within the management boards because members have often been working together for a longer period of time and come from the own organisation (or very similar organisations). On 1 January 2017, board members of the surveyed banks were members of the board for on average 8 years and employed by the own organisation or a predecessor for on average 15 years. And 19 of the 21 board members came from within the own organisation or have been involved as board members since the beginning of the organisation: *"In this sense, people are of course selected and trained in connection with the bank's mission. There is never any discussion about this."*

The management boards are aware that there is a shared frame of reference. They value this as it serves as a basis for a sense of connectedness with the organisation. It enables them to act effectively and to realise targets under pressure.

However, management boards have little attention for the limiting influence of a shared frame of reference and the consequences that this has for the decision-making. This shared frame of reference consisting of experiences, beliefs and behaviour leads to a partial interpretation of observations (from one or a limited number of perspectives), whereby other explanations are ignored or overlooked. This is reflected in the limited degree in which arguments that are in line with the frame of reference are verified and in the weighing of risks.

1. **Arguments that support the shared frame of reference are not debated or only to a limited extent.**

Initiatives that are in line with the shared frame of reference are discussed more often and with more enthusiasm. The board members mention in the interviews that some topics are given

[9] The text sections printed in italics are quotes that have been selected from the interviews with the banks.

preference over others. At the same time, these topics were also discussed more often in the interviews themselves.

The study shows that arguments that are in line with the preferred direction are given much more weight than other arguments. The conviction that it is right to do something or that something is appropriate for the bank is often a decisive argument whereas that cannot always be expected with regard to other interests/arguments. *"Okay, it costs a lot of money, but it befits us as a bank therefore we simply have to do this."* When discussing a new initiative that fits within the shared frame of reference, people are more inclined to think in solutions and alternative options to realise the initiative than to ask the question whether the initiative should be started to begin with. Topics and arguments that are not in line with the shared frame of reference are proposed less often or not at all: *"You do not always want to be the killjoy. Topics are often introduced from one perspective. While you mean it positively, you do not always want to be critical. That can feel uncomfortable."*

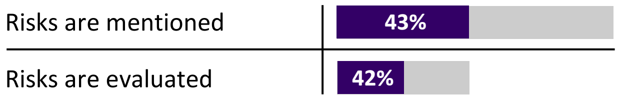
The shared frame of reference works as a filter in practice. The arguments that are closer to the shared frame of reference are usually more familiar to the management boards. As a result, these arguments are given more weight. Due to the influence of the shared frame of reference, the weighing of arguments is less balanced than management boards themselves often think. In short, the shared frame of reference and not debating this or only to a limited extent lead to unbalanced decision-making because certain perspectives are not discussed or are given insufficient weight in the consideration.

2. Risks are not always discussed and weighed in a balanced manner

The shared frame of reference also determines which risks are or are not identified and discussed. For instance, the management boards of banks with clear growth objectives focus mainly on the operational feasibility of initiatives and the financial impact. On the other hand, banks that consider their role in society very important pay a lot of attention to possible reputation damage. At the same time, enthusiasm and persuasiveness from within the shared frame of reference can lead to board members overlooking risks that do not fall within this frame of reference. For example, continuing an innovation project because it is in keeping with the character of the bank, whereas clear operational risks are entailed: *"You notice a start-up feeling. We should do this, this is so fun, this is so good."*

For the strategic decisions where, in view of the scope and possible impact of the decision, it can be expected that risks are mentioned in the preparatory documents for the board meeting, this only occurs in 43% of the cases. And where risks are mentioned, a substantiation and evaluation are provided in only 42% of the cases (see Figure 2).

Figure 2: Attention for risks in the preparatory documents for board meetings



The limited inclusion and substantiation of risks in the preparatory documents influences the depth of the discussion during the board meeting. Observations show that although management boards do discuss risks and ask questions about risks, this often takes place implicitly and little attention is given to mitigating measures.

In addition, some risks are assumed to be so generally known that they are no longer made explicit or questioned. For example, reputation damage is often mentioned, but it is not questioned further what this means specifically for the decision in question. Does this concern, for example, the general image, is it connected to a (recent) incident, does it relate to a specific customer group or does it apply to potential customers? When risks are not mentioned explicitly, there is a greater likelihood that the weighing of the risk will be suboptimal. If it is not completely clear what the risk is and what the consequences can be, risks cannot be assessed properly.

At a few of the banks in the study, the weighing of (certain) risks is the responsibility of other governing bodies. For example a risk committee. This can explain why risks are sometimes not discussed extensively in the board meetings. At the same time, management boards are responsible for the functioning of the bank and ensuring that risks are weighed fully and correctly is part of that responsibility.

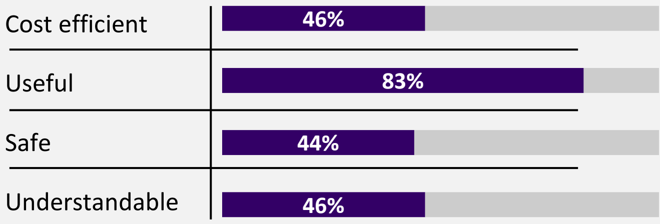
Customer satisfaction or the customers’ interests

This study shows that a lot of attention is still paid to customer satisfaction in the decision-making process. Customer satisfaction is not the same as the customers’ interests. It is not only a difference in wording, it is a crucial distinction. Customer satisfaction means, in short, that the organisation aims to ensure that the customer receives what he/she desires. This concerns matters such as fast service, good accessibility, or fast handling of complaints. When priority is given to customers’ interests, the organisation aims to give the customer what he/she needs. This concerns products or services that offer sufficient added value for the customer’s situation, now and in the future.

The management board’s shared frame of reference determines the degree and manner in which the customer is discussed during board meetings. Among the banks in the study with a strong focus on growth objectives, in terms of revenue and number of customers, the customer is often viewed from the perspective of customer satisfaction. The Net Promoter Score (NPS) plays a big role and discussions are about whether customers are satisfied with the products and services provided and whether these meet the customer’s needs. Less attention is paid to the question whether products and services are also suitable for the customer: *"Does it solve anything for the customer? This is not discussed much. More like: can we deliver?"*

For strategic decisions it is relevant that the bank gives central priority to the customers' interests, for example the introduction of new services or a change in existing services, limited attention is paid to the KNVB criteria: cost efficient, useful, safe and understandable[10] in the preparatory documents for the management board. These criteria have been drawn up by the AFM to provide a concrete direction for the financial sector for giving central priority to customers' interests. These criteria assess whether products and services are suitable for the customer, now and in the future, whether these can be explained and whether there are safeguards for the protection of customers. In order to give central priority to the customers' interests, it is important that all four criteria are taken into account in the preparatory documents.

Figure 3: Attention for KNVB criteria in the preparatory documents for board meetings



It is described whether the price of products and services is in accordance with the quality delivered in less than half of the decisions reviewed (see Figure 3). The question whether products and services do what they promise and are understandable for customers is also described in less than half of the cases. The usefulness of products and services is mentioned more often, in 80% of the cases. However, this description is mainly limited to the question for whom the product or service is relevant and whether the product or service meets the customer's needs. Not whether the product or service is also suitable for the customer. In other words, the emphasis lies more on customer satisfaction than on the customers' interests.

In the board meetings as well, central priority is not always given to the customers' interests and the emphasis is also on customer satisfaction. At most banks in this study, more time and energy are spent on operational matters than on talking about customers. When the customer is discussed, this is more from the bank's perspective than from the customer's perspective. For instance, the customer impact is discussed in terms of possible consequences for the bank and not for the customer. For example, at the time of the introduction of a new product the question is discussed whether customers will buy the product sufficiently, but not about whether the product offers a solution for the customer in the long term. Another example is that the influence

[10] (Kostenefficiëntie) Cost efficient: the degree in which the price is in accordance with the service or product provided, (Nut) Useful: the degree in which the service or product is suitable for the target group and fulfils the customer's needs, (Veiligheid) Safe: the degree in which the customer's safety is ensured, and (Begrijpelijk) Understandable: the degree in which the service or product provided can be understood by the customer.

of communication activities on the NPS score is discussed instead of whether the communication is understandable for the customer.

Banks that truly have a strong focus on their role in society and that regard the customer as part of their corporate social responsibility generally look further than customer satisfaction. They take a step towards giving central priority to customers' interests. The question whether products and services are suitable for the customer on the short and the long term is discussed. Moreover, they also talk more about what customers may expect from the bank and whether customers are able to make the right choice: *"This does not always mean that you have to concede to the customer. It is about: does the customer understand it, can it be explained easily and does it help the customer to make the right choice."*

Management boards reflect little on the group process of the decision-making. Board members indicated in the interviews that they generally act rationally. Decisions are a rational weighing of the various interests and perspectives. According to the board members, the primary concern in the decision-making process is making sure that all relevant aspects are presented: *"I am always working hard at making sure that the right facts are presented, for example, are the costs correct?"* However, it appears from the observations and interviews that 'the organization's background' and a certain belief play an important role subconsciously in the substantiation. This is sometimes more important than a detailed or numerical substantiation. Persuasiveness is often found in the shared frame of reference: "It befits the bank." Board members indicate that as a consequence of this assumptions are sometimes presented as facts. This can lead to decisions being made based on incorrect or incomplete information. It also appears that individual customer experiences or personal examples are used to convince others and thus they are given too much weight: *"If someone says, Mr Jones complained about the interest rate yesterday. Then it is only human to assume that everyone is complaining about this interest rate."*

Most of the management boards in the study only realise to a limited extent that more intuitive aspects and group processes also influence the decision-making in addition to rational considerations: *"We always try to arrive at the most rational good decision, I prefer that."* This can be seen in the lack of reflection on the group dynamics. In addition, this study found that confidence in role responsibility can inhibit asking critical questions. This can be seen in the lack of reflection on group dynamics within management boards and how confidence in others can lead to critical questions not being asked.

3. **Little attention is paid to reflection on the influence of group dynamics on decision-making**

All examined management boards paid attention to how they function as a group; however, this generally only takes place instrumentally and with regard to the contents. The management boards aim to achieve the right balance in knowledge and skills of board members. Personalities are assessed using colours techniques and strengths and weaknesses analyses[11]: *"We like to think in colours. A few people are yellow, and a few are a bit red. It is reasonably well-balanced."* The translation of this into the functioning of the board as a whole and the interaction between individual members of the board is only seldom made. Consequently, board members find it difficult to explain the interaction between board members. Board members reflect only to a limited extent on effects resulting from the way in which they interact. For example, irritations that exist between board members causing certain arguments not to be taken into account properly, board members that hold on to pet subjects, board members that place too much confidence in each other's expertise, or differences based on hierarchy or tunnel vision. Attention for the dynamics between individual members or within the board as a whole was not recognised by most of the management boards as part of a balanced decision-making process. The danger of a lack of reflection on and insight into the influence of group dynamics is that it is also not possible to steer on this when necessary. This has a negative effect on the quality of the decision-making. Reflection on group dynamics exposes prevailing assumptions. In the feedback interviews with the management boards, it also appeared that board members find it difficult to discuss these blind spots: *"I find it difficult to solve something when there is no problem."* While 'the problem' in this case can be that management boards are not aware of their blind spots.

The management boards that do reflect on decision-making mainly pay attention to the contents of the meeting with the exception of a few management boards. Therefore, it concerns the question what is being discussed and not about the process: how is this being discussed? The degree and the form in which management boards reflect also differ. Some management boards discuss how they work together in special sessions or have set aside a time at the end of each board meeting to discuss this. Other management boards do this when the need arises during the meeting. The risk of not structurally incorporating a moment of reflection is that this does not take place: *"If you do not set aside time for reflection, then you won't do this."*

4. Confidence in role responsibility inhibits asking critical questions

Each board member is generally responsible for a specific interest or perspective. This follows from their portfolios, for example the responsibility for Operations, Finance or Marketing. Who has which role or represents which interests is completely clear. Management boards in this study are confident that everyone fulfils his or her role responsibility properly. As a consequence, board members do not question each other critically on their role responsibility. This can be seen, on the one hand, in the functional responsibility: board members do not want to dictate how other board members should do their work. On the other hand, too much confidence in the person plays a role. Board members have confidence, whether or not based on previous experiences, in a person's skills and expertise. Political relationships between board members can also play a role. For example, a goodwill factor between board members or the protection of one's position vis-à-vis other board members.

[11] Such as: MBTI, Management Drives, DISC model.

Too much confidence in the role responsibility hinders the degree in which assumptions are tested and seriously debated during board meetings: *"You know that you have respect for each other's expertise. I will not enter into a discussion with the Head of Risk about risk issues, I will contact him after the meeting. It does not serve any purpose to discuss this very theoretically. Furthermore, it is his expertise, so I assume that he knows more than I do".*

Asking questions helps to discover errors of judgement. It also increases people's awareness of certain assumptions or subconscious reasoning. Therefore, continuing to ask each other questions has an important function in a balanced decision-making process. You need others to help you recognise your subconscious tendencies. When there is a clear division of roles, it is even more important to question each other as, in that case, there is often only one specialist or representative of a field or perspective.

It is not always clear where the responsibility lies for the customer's perspective within the management board. At some banks, the customers appear to be mainly represented by the responsible board member of Marketing or Operations. At other banks, there does not appear to be a specific board member with this role responsibility. Some board members state that people who have little customer contact also often find it more difficult to think from the customer's perspective. Lack of clarity regarding who represents the customers' interests can lead to the customers' interests not being represented or not always being represented adequately. This also makes it more difficult to ask critical questions about the customers' interests.

The customer's perspective does not always have to be assigned to one board member, it can also be the case that there is a shared responsibility of several board members.

It is notable that there is more shared responsibility among the board members for the customer's perspective at banks that pay attention to their role in society and social responsibility, and thus also to the position of the customer. Customers are more often a topic of discussion during board meetings and various board members discuss customers from different perspectives.

5. Techniques to handle blind spots

Based on professional academic literature and examples that we encountered at the banks in the study, there are a number of techniques that can help recognise the influence of blind spots on decision-making.[12] At first glance, these techniques may appear to be rather obvious; however, applying these properly can be effective. Below, we list a number of questions that every management board can ask itself with a number of techniques to prevent blind spots from having a negative influence on decision-making in the organisation. The degree in which these techniques are useful will differ for each bank and management board.

On which frame of reference is the reasoning of our management board based and what effect does this have on the decision-making process?

Are we aware of the shared frame of reference, objectives and interests? This shared frame of reference becomes explicit in the questions that are often asked during the board meeting, in the topics for which board members become enthusiastic quickly and the objectives that the organisation sets for itself.

1. **Use the premortem technique to temper enthusiasm**

Before the choice is made to start a project or initiative the hypothesis is put forward during the meeting that the project was indeed executed and resulted in a disaster. Subsequently, each board member is asked to take two minutes to write down what he/she believes to have been the reasons that the project failed and these reasons are then discussed by the whole board. This premortem technique, developed by Gary Klein, is a manner to encourage thinking like 'the devil's advocate' within a group. Explicitly contemplating the negative sides, and bringing these forward so that they can be taken into account when weighing the pros and cons helps to temper enthusiasm and to avoid self-overestimation. This encourages board members to think outside the box and can result in important perspectives that normally receive little to no attention.

Employees who think differently and dare to place question marks with regard to the bank's frame of reference ('corporate rebels') can also be asked to assume this role. Give them the opportunity to express their criticism in an early stage and use them as challengers of decisions.

2. **Make risks and dilemmas explicit in preparatory documents so that these can be discussed in the meeting**

The degree in which risk and dilemmas are elaborated on paper influences the manner in which these are discussed during the board meeting. In order to ensure that risks and dilemmas are discussed in-depth, they have to be elaborated explicitly and clearly. If this is not the case, the discussion will remain superficial or the board members will only discuss the most obvious topics. Therefore, make sure that the risks and dilemmas are elaborated in the preparatory documents. The more explicit, the better. This means, for example, that a risk has to be evaluated by making

[12] Klein (2007); Kahneman et al. (2011).

an inventory of the consequences and by specifying mitigating measures. A dilemma must also be made concrete, without making use of general terms. Making use of a format in which risks and dilemmas are always included can be helpful. During the discussion in the board meeting, you can also ensure that people become more concrete by asking specific questions. For example, in the case of an argument such as: ‘collaboration is important’ questions can be asked as: who has to work together with whom? At which times? Are people able to work together (can they reach each other easily, do they have the same interests, do they have time for this in addition to their other tasks)?

The above techniques are mainly for the meeting itself. Possible tunnel vision due to a shared frame of reference can also be mitigated by explicitly taking into account someone’s background and how this contributes to the diversity of the composition of the board in the recruitment, selection and reappointment of board members.

Which group processes play a role in our management board and how does this influence the decision-making process?

Do we take enough time for reflection (before, during and after the meeting)? Practically every organisation has its blind spots. The first step to remove these is awareness. Reflection on the group dynamics also makes prevailing assumptions visible.

3. Make use of the check-in method to sharpen the focus and to take the group dynamics into account

The schedules of board members are often hectic with back-to-back appointments. By introducing a break, you can enable board members to give their full attention to the meeting. Offering the opportunity for people to tell how they feel helps to take the dynamics of the meeting into account. For instance, a board member who just held a difficult dismissal interview could act differently than usual during the meeting, which would subconsciously influence the dynamics within the group. Knowing this helps to be able to understand someone’s attitude and reactions better. The check-in technique demands a certain degree of openness within the management board in the sense that the board members have to feel comfortable about sharing their concerns with one another.

4. Use the check-out method to reflect on the manner of decision-making

Conclude the board meeting with a moment of rest and provide the opportunity for a brief reflection on how the meeting went. Examine the process of the meeting and not the contents. The tendency to discuss the subject matter is understandable and will often easily occur subconsciously, especially in the beginning. It is good to be alert with regard to this and to set aside questions or comments related to the subject matter and to discuss these at a different time or in a next meeting. The check-out technique helps you to evaluate your decision-making process and can strengthen cooperation. The check-out also offers the opportunity to examine whether the customer’s perspective has been discussed sufficiently during the meeting or other perspectives that naturally fall outside of the shared frame of reference of the board members (for example attention for operational feasibility of initiatives).

5. **Appoint decision challengers on role responsibility to encourage asking critical questions**

Appoint decision challengers on role responsibility. Ensure that for each board member at least one other board member is appointed who has the task to be critical with regard to the role responsibility of the board member. This decision challenger should ensure that the other board members do not place too much confidence in the expertise of the colleague board member during the meeting and that specific questions are asked to, for example, verify assumptions. By making this task explicit in advance, board managers can expect feedback from each other and thus possible confidence issues in the dynamics of the meeting can be avoided. Decision challengers can rotate after a period of time in order to stimulate a fresh perspective.

Does the decision-making focus on customer satisfaction or the customers' interests?

Central priority is given to the customers' interests, when the organisation aims to give the customer what he/she needs. In this case, the organisation offers products and services that offer added value for the customer's situation. Giving central priority to the customers' interests is therefore not the same as customer satisfaction. Customer satisfaction means, in short, that the organisation aims to ensure that the customer receives what he/she desires. This concerns matters such as fast service, good accessibility, fast handling of complaints, etc.

6. **Perform a sanity check to see whether the discussion takes place based on customer satisfaction or on the customers' interests.**

It is important to ask the question in the decision-making process whether customer satisfaction or the customers' interests are the frame of reference. Set time aside, also early in the process, at which this is examined explicitly. This is possible, for example, during the check-out (see above) by reflecting on the degree and manner in which the customer's perspective had been discussed, appointing a decision challenger with the task to ask in-depth questions when customers are discussed or including the customers' interests as a standard item with the format of the preparatory documents. When including the customers' interests as a permanent item in the format, it is important that the input is discussed in the meetings. If this does not take place, this item may not filled in as seriously as it should.

Specific questions can be asked to check whether customer satisfaction or the customers' interests are the frame of reference. These could be questions such as:

- Which problems are we solving for the customer with this?
- Are there sufficient safeguards that the right target group makes use of this?
- Are we doing this because it provides added value primarily for the bank or for the customer?
- Which risks for the customer (on the short term and the long term) are connected to this product/service?

6. Conclusion

This study showed a number of good examples that contribute to the quality of the decision-making process. The chair is aware of his or her role in the decision-making and encourages board members to voice their opinions and bring various perspectives to the table. Management boards are critical with regard to the substantiation of a decision. And a structured process prior to the board meeting increases the likelihood of substantiated decisions.

In addition, two blind spots were found that influence the decision-making process. The blind spots are the result of a shared frame of reference of board members and the lack of reflection on the group process.

Management boards operate from a shared frame of reference: a set of shared experiences, beliefs and behaviours that generally arise from the raison d'être of the organisation or the stage of growth the bank is in. The shared frame of reference can potentially lead to tunnel vision: arguments that support the shared frame of reference are given more weight than other arguments and are not debated or only debated to a limited extent. The shared frame of reference also largely determines the extent in which risks are acknowledged and/or weighed. In practice, this means that risks that fall within the shared frame of reference are given more attention than risks that fall outside the shared frame of reference. When the customers' interests are not clearly part of the shared frame of reference, these interests will also play a smaller role in the weighing of interests. In the case of banks that pay a lot of attention to their own role in society and social responsibility, it seems that the customer is more part of the frame of reference and customers are discussed more often during board meetings.

The management boards in the study are generally of the opinion that balanced decision-making is a rational weighing of interests; they have little attention for the influences of group dynamics and overconfidence in role responsibility. The majority of management boards in this study only reflect to a limited extent on the interaction between board members and the influence of, for example, relationships, irritations or pet subjects. Therefore, they are not able to steer on this when necessary. In addition, board members place a lot of confidence in each other's role responsibility which prevents them from asking each other critical questions to identify assumptions or preconceived ideas or arguments. A number of management boards did not have a board member who was responsible for representing the customers' interests as a result of which there is a real risk that the customer's perspective is not taken (sufficiently) into account.

Due to the shared frame of reference, some banks focus mainly on customer satisfaction instead of the customers' interests. Not all management boards are aware of this, causing this problem not to be recognised. Therefore, the AFM considers it very important that management boards become aware of their shared frame of reference and reflect better and more frequently on their blind spots. Various techniques can help with this, such as the premortem technique, a check-in and check-out moment and appointing decision challengers. However, simply adapting processes is not sufficient. It is crucial that board members and any other people who are involved in the decision-making process continue to challenge and stimulate each other. In addition, it is important that the chosen technology is in line with the organisation's culture so that it does not become a gratuitous exercise but actually provides added value.

7. Literature

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Annex: Research accountability - research methodology

This annex provides a description of the research methodology used in this study.

Scope of the study

The study is intended as an orientation and is of a qualitative nature. The study was carried out among the management boards of five small to medium-sized retail banks. We examined strategic decision-making, which determines the bank's direction and results and the services provided by the bank. A selection was made in consultation with the individual banks of decisions taken in 2016 whereby the following criteria were applied:

- The topic is connected to the customers' interests.
- The topic is related to a strategic theme of the organisation, or is connected to (the prevention of) identifiable risks.
- The topic is recognised and embraced by the organisation as a relevant research object.

Objectivity

In view of the qualitative nature of the study, various efforts have been made to ensure an as great as possible degree of objectivity. For instance, we have made use of several research methods (triangulation) to avoid subjectivity in findings. The use of several methods that complement each other makes it possible to arrive at a sounder analysis. We have opted for a combination of desk research, interviews and observations. The assessment framework for the desk research, interview guidelines for the interviews and observation chart for the observations have the same structure, based on insights from scientific publications.

The study was carried out by a core team of three persons and the flexible employment of another five researchers. The research per bank was carried out by two permanent researchers and additional rotating researchers. This ensures continuity and a critical perspective. By means of rotation between research teams, we have also ensured that the research is carried out consistently at the five banks. An external expert was involved at different times in the study to verify assumptions and to avoid tunnel vision.

Methodology

Various methods were used in the study: desk research, interviews and observations.

Desk research

Based on a number of pre-defined criteria, five to eight strategic decisions were selected and reviewed per bank. For each decision, the preparatory documents were requested that were discussed in the board meeting. The decision documents varied from only one preparatory document to several documents that were discussed several times in the board meeting during the year. The decision documents also varied in their nature, from operational and informative to persuasive. In addition, the relevant minutes of the board meetings were requested.

An assessment framework consisting of 49 criteria was used for the analysis of the preparatory documents and minutes. The framework is based on scientific publications on biases and was applied in the same manner for all five banks. A six-eyes principle was applied for each decision: three researchers assessed each decision individually based on the assessment framework. A final assessment was made based on the individual assessments. The final assessments of the decisions resulted in a total overview for each organisation. In total, seven researchers were involved in the analyses. The composition of the team of three researchers was rotated per bank.

In addition to the preparatory documents and minutes, each bank filled in a short questionnaire about the formal agreements with regard to governance and decision-making.

Interviews
Three decisions were selected per bank, based on a number of pre-defined criteria, which were discussed in more detail in the interviews. In addition, the decision-making within the management board and the bank in a more general sense was also discussed. Interviews were held with the board members of the bank and submitters who were involved in preparing the preparatory documents or who provided an explanation in the board meeting in connection with a decision document. Seven to nine interviews were held per bank.

The interviews were semi-structured, in the sense that a list of to be discussed topics and questions was drawn up in advance but at the same time room was reserved during the interview to formulate questions differently, to change the sequence or to ask more in-depth questions about a specific topic. An interview guideline was prepared based on the assessment framework that was used in the desk research. The guideline consisted of a general part that was the same for all of the banks and a part with specific questions for the bank or decision concerned.

The interview lasted 1.5 hours and took place at the bank. Each interview was conducted by two supervisors. A third supervisor was charged with documenting the interviews. A fixed team of researchers was used as much as possible for each organisation. The fixed team contributed to the quality of the interviews because insights from interviews could be used in subsequent interviews and knowledge gained in earlier interviews enabled us to ask more specific questions in later interviews.

The interviews were documented in writing. A predefined coding was used in the analysis. This was based on the assessment framework as used in the desk research and was in line with the interview guideline. A total overview was made based on the analysis according to the same structure. The total overview per bank was prepared by two researchers and analysed by a third researcher.

Observation
Observations of board meetings took place at four of the five banks. The observations were carried out each time by two researchers, of which at least one was involved in the interviews. As a result, questions could be asked in the interviews about insights obtained during the observations.

A structured observation chart was used during the observation which was the same for all of the banks. This chart also contained the topics that were examined in the desk research and interviews. In addition, the chart is also based on insights from scientific publications and external expertise in the area of observation as a research method.

The outcomes of the three research methods were combined into a total overview per bank. These were prepared by two researchers and analysed by a third researcher. A market overview of the most important findings from the study was distilled from the total overviews per bank. These findings are described in this publication.

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DEALING WITH BLIND SPOTS IN DECISION-MAKING

A study by the AFM shows that blind spots can occur in the decision-making process of management boards that hinder a balanced weighing of interests. This handout provides a number of techniques that can help reduce the impact of blind spots. These techniques are relevant for management boards and management teams where strategic decision-making takes place, but also for departments such as Compliance, IAD and Risk that supervise balanced decision-making in the organisation.

AVOIDING TUNNEL VISION

Management boards often operate from a shared frame of reference: a set of shared experiences, beliefs and behaviours that generally arise from the raison d'être of the organisation or the stage of growth that the organisation is in. This can lead to a form of tunnel vision causing some arguments to be given more weight than others or not being debated or only being debated to a limited extent. Tunnel vision is maintained because board members have often been working with each other for a longer period of time and come from the own organisation (or very similar organisations). Attention for diversity in background in the recruitment, selection and reappointment of board members is therefore important.

1. Premortem technique

Before the choice is made to start a project or initiative the hypothesis is put forward during the meeting that the project was executed and resulted in a disaster. Subsequently, each board member is asked to take two minutes to write down what he/she believes to have been the reasons that the project failed and these reasons are then discussed by the whole board.

The premortem technique, developed by Gary Klein, is a manner to stimulate thinking like 'the devil's advocate' within a group. Explicitly considering the risks and drawbacks and discussing these helps to temper enthusiasm and to avoid self-overestimation.

2. Making risks and dilemmas explicit

Make risks and dilemmas tangible and discussable by thoroughly elaborating these in the preparatory documents. The more explicit, the better. This means, for example, that a risk has to be evaluated by making an inventory of the consequences and by specifying mitigating measures. A dilemma must also be made concrete, without making use of general terms.

Elaborating risks and dilemmas concretely and clearly helps to discuss these thoroughly in the board meeting. If risks and dilemmas are not elaborated, the discussion will remain superficial or the board members will only discuss the most obvious topics.

STEERING ON GROUP DYNAMICS

Management boards often still regard balanced decision-making as a rational weighing of interests. The influence of group dynamics is hardly recognised as part of a balanced decision-making process. This could cause boards not to reflect on the influence of their actions and not to be able to take this into account in their guidance.

3. Check-in method

Take time for a short break before the meeting to enable the board members to give their full attention to the meeting.

The schedules of board members are often full with back-to-back appointments. The danger of this is that which took place in the previous meeting (subconsciously) can have an effect on how someone joins the meeting and behaves during the meeting. This influences the dynamics of the group. Providing an opportunity to completely focus on the meeting and to make one's frame of mind known to each other, helps to better understand each other's behaviour and to take this into account.

4. Check-out method

Conclude the board meeting with a moment of rest and provide the opportunity for a brief reflection on how the meeting went. Examine the process of the meeting and not the contents.

The check-out technique helps you to evaluate your decision-making process and can strengthen cooperation. The check-out also offers the opportunity to examine whether the customer's perspective has been discussed sufficiently during the meeting or perspectives that naturally fall outside the shared frame of reference of the board members (for example attention for operational feasibility of initiatives).

5. Decision challenger on role responsibility

Ensure that for each board member at least one other board member is appointed who has the task to be critical with regard to the role responsibility of the board member. This decision challenger should ensure that the other board members do not place too much confidence in the expertise of the colleague board member during the meeting and that specific questions are asked to, for example, verify assumptions. Decision challengers can rotate after a period of time in order to stimulate a fresh perspective.

Appointing decision challengers prevents too much confidence from being placed in the role responsibility of board members during the meeting as a result of which critical questions are not asked and topics are not really debated. By making this task explicit in advance, board members can expect feedback from each other and thus possible confidence issues that negatively influence the group dynamics can be avoided.

SAFEGUARDING THE CUSTOMERS' INTERESTS

Management boards still focus (subconsciously) on customer satisfaction instead of on the customers' interests. The difference between customer satisfaction and the customers' interests is not only a difference in wording, it is a crucial distinction. Put briefly, customer satisfaction focuses on the customer receiving what the customer wants, for example, fast service, good accessibility or fast complaint handling. Giving central priority to customers' interests focuses on what customers need, now and in the future.

6. Sanity check customer satisfaction or customers' interests

Set time aside, also early in the process, at which it is examined explicitly whether customer satisfaction or the customers' interests are being discussed. This is possible, for example, by 1) reflecting during the check-out (see above) on the degree and manner in which the customer's perspective had been discussed 2) appointing a decision challenger with the task to ask in-depth questions when customers are discussed or 3) including the customers' interests as a standard item in the format of the preparatory documents. It is, however, important for the last example that the given input is discussed in the meeting. If this does not take place, there is the risk that this item is ultimately not filled in seriously and simply becomes a perfunctory check list.

Specific questions can be asked to check whether customer satisfaction or the customers' interests are the frame of reference. These could be questions such as:

1. Which problems are we solving for the customer with this?
2. Are there sufficient safeguards that the right target group makes use of this?
3. Are we doing this because it provides added value primarily for the bank or for the customer?
4. Which risks for the customer (on the short term and the long term) are connected to this product/service?

Awareness about when customer satisfaction or the customers' interests are being discussed helps to conduct an effective discussion and to include the customer's perspective in a good manner.