Following the crowd

New research has revealed groupthink is becoming increasingly present among trustee boards, as a challenging environment couples up with a lack of confidence among board participants. Lauren Weymouth explores why it's occurring and how the industry can help to prevent it from having disastrous consequences

Summary
• In 1972, social psychologist Janis Irving devised a theory that revealed the way people work under pressure, and the detrimental effects of the desire for conformity; an analysis he coined 'groupthink'.
• This type of groupthink is particularly present on DB trustee boards, whereby trustees simply conform with the rest of the group. It is present on boards where there is a lack of diversity.
• Trustees are following the 'corporate nod'. Differing structures can mean the objectives of the scheme and investment consultant are not aligned.

In 1972, after closely watching people work as a group, social psychologist Janis Irving devised a theory that revealed the way people work under pressure, and the detrimental effects of the desire for conformity; an analysis he coined 'groupthink'.

Irving's discovery, was that when people are placed in a group situation, pressures placed on the pact can often cause people to stick to what they know, ignore alternatives, avoid raising controversial issues and lose individual creativity.

"The advantages of having decisions made by groups are often lost because of powerful, psychological pressures that arise when the members work closely together, share the same set of values, and, above all, face a crisis that puts everybody under intense stress," Irving famously claimed.

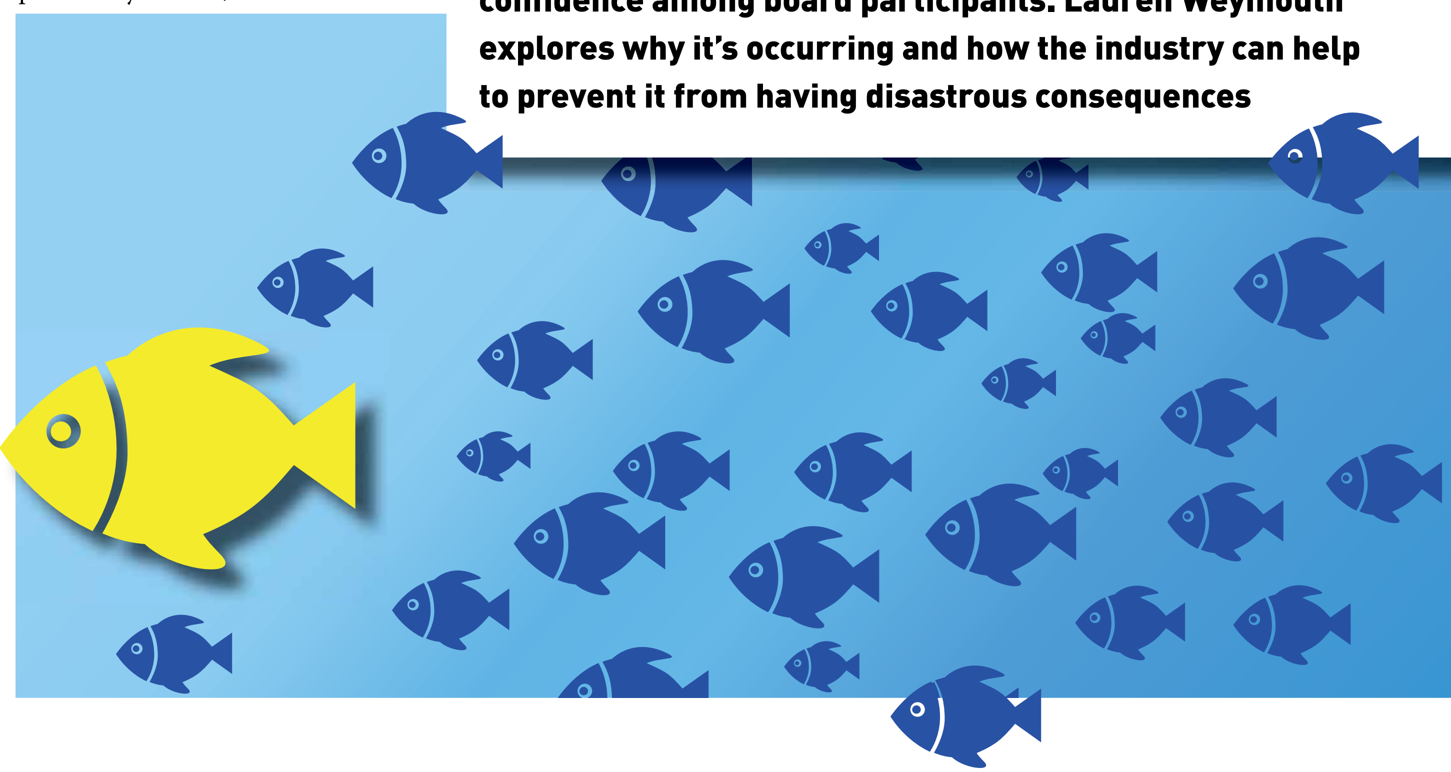
Presence among trustee boards

A study by University of Leeds associate, professor in accounting, Dr Iain Clacher, found this type of groupthink is particularly present on defined benefit trustee boards, whereby participants, particularly trustees, are sometimes failing to challenge decisions made and are simply conforming with the rest of the group.

The study, which was run in conjunction with IFF Research and SEI, revealed there is a common tendency for trustee boards to heavily rely on the most vocal participants to lead the discussion, with others simply following the crowd.

It was noted to be particularly present through trustees' reluctance to challenge their investment consultant, possibly due to a lack of knowledge or expertise on the specific topic.

AMNT co-chair David Weeks explains how groupthink is more noticeable among participants who have the same, or a very similar perspective



on a subject; on boards where there is a lack of diversity and range of perspectives being represented.

The research confirmed this. Interviews with 100 trustees of DB schemes found that over half of respondents consider other trustees' views as 'extremely or very important' when making their own personal investment decision. Worryingly, a further 42 per cent of trustees claim to have never challenged the advice of their investment consultant.

Furthermore, the survey showed only 49 per cent of trustees rate their board's ability to make decisions as 'very good' and just 36 per cent rate their scheme's ability to respond quickly to new situations or opportunities as 'very good.'

Why groupthink is increasingly present

These results shed light on the common issue that some trustees are fearful of making controversial decisions, and look to their peers for support in coming to conclusions. Fierce Conversations author Susan Scott, claims this look for approval can be defined as a culture of the 'corporate nod.' The 'nod' happens when people follow leadership; something already evident from trustee's responses to the survey, which indicated their reliance on other opinions throughout the decision-making process.

But this isn't the only reason groupthink is becoming more prevalent. One of the main reasons trustee boards fall into the trap of groupthink could be, as the research identified, because trustees are being held back by the traditional pension scheme governance model.

Scientifically, research has found that following traditions and 'best practices' is one of the main causes of groupthink in any group situation. Research by Forbes Coaches Council found that groups have the tendency to follow their commitments to historical approaches – in this case an outdated governance model – instead of looking at how things should be done now.

In the traditional pension scheme governance model, investment consultants operate on an hourly billing model, rather than a fee based on results, and they are not directly accountable for their advice.

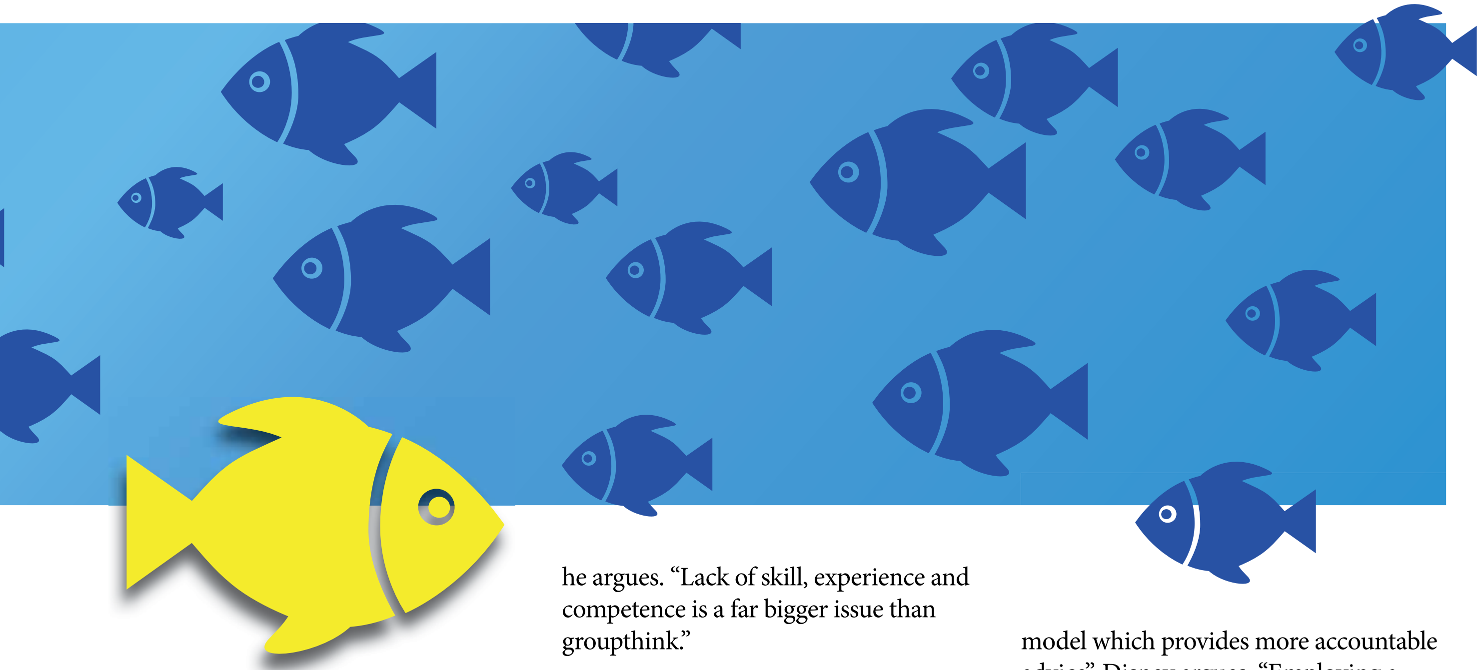
But it can be argued that this structure means the objectives of the scheme and the investment consultant are not aligned. SEI managing director, Patrick Disney claims the issue is that modern trustees have the "misfortune" of working in a broken model – "a framework that is no longer fit for purpose, guided by consultants who are unaccountable for the advice they provide".

Consequences

Unfortunately, this, and other causes of groupthink, come with several consequences. One of the most notorious examples of groupthink impacting an entire industry was the financial crisis – triggered by the blind trust in financial markets over economic fundamentals in the decision-making process. Businesses benchmarked themselves against each other and subsequently, found chaos.

PTL managing director Colin Richardson notes how one of the biggest risks among pension schemes is the failure to appreciate the positions and circumstances of members. "There are undoubtedly many examples of negative impact," he explains, "communications not written in the best way for members to understand; insufficient consideration of member choice in liability management exercises; insufficient consideration of options and communications near to retirement. In the DC space, particularly, poor explanation of investment choices and failure to offer optimum investment options can impact very negatively."

Burges Salmon pensions team partner, Richard Pettit agrees there are significant risks and consequences. "This really isn't just a theoretical risk, either," he argues. "Trustees decisions have significant ramifications for members and scheme sponsors – a failure to



stress-test the decision can lead to poor outcomes for all parties. It's really important for trustees to be able to put their heads above the parapet."

SEI's research revealed this impact of groupthink on trustee boards may have also led to an increased burden on employers. Findings confirmed that 41 per cent of schemes have had to increase employer contributions as a result of underperforming against their benchmark in the last five years, with average increases of 22 per cent.

Furthermore, 28 per cent of trustees said poor processes exacerbate poor performance against their benchmark and 19 per cent cited inadequate resources as a reason for not being able to improve performance.

But while research might highlight groupthink's negative impacts, it doesn't place a risk among all trustee boards. Richardson argues that while some particular decisions could matter, for most, it does not.

"Decisions made by a DB trustee board are undertaken in the context of securing the payment of defined benefits – and that does not change throughout groupthink, even if some decisions at the margins may be affected," he argues. "Lack of skill, experience and competence is a far bigger issue than groupthink."

How to avoid groupthink

But however big or small the issue of groupthink, there are ways of avoiding it. Richardson explains how a culture of challenging assumptions, and even a process of one trustee playing 'devil's advocate' can help ensure that key points aren't missed.

"Expanding the background and influences of the members of trustee boards – bringing in alternative perspectives – can significantly reduce the risks of groupthink," he says.

"I have seen a number of cases where the presence of member-nominate trustees on a board has opened up debate and led to a healthy challenge of perceived wisdom and assumed knowledge amongst both trustees and advisers. Further improvements in the diversity of trustee boards will inevitably reduce the risk of groupthink occurring."

But while diversity is key to ensuring a well-balanced and well-represented trustee board, which leads to several different opinions, the effects of a potentially outdated governance model should not be ignored.

"The key to limiting the consequences of groupthink are by employing a different pension scheme model which provides more accountable advice", Disney argues. "Employing a more accountable and transparent model where the objectives of the trustees and the provider/adviser are more closely aligned and the funding level can be easily monitored by the trustee board will ensure that the negative consequences of group think are reduced."

From a legal perspective, Pettit explains it is always important for trustees to consider all relevant factors when making a decision and go into any decision with an open mind. "The simple process of pausing to ask "why shouldn't we do this" or "what have we missed?" before finalising a decision can prevent momentum towards a particular decision sweeping all other considerations aside," he points out.

But as Disney concludes, "trustees are not doing anything wrong, nor are they at fault for the challenges and issues identified in relation to groupthink. The role of pension scheme trustees has never been more challenging. Trustees simply need to review their existing approach and assess whether it is appropriate to meet their objectives."

Written by Lauren Weymouth, a freelance journalist