

If it is present within a pension scheme trustee board, groupthink – the process of individuals unconsciously mirroring and reinforcing each other's assumptions, attitudes and actions – can lead to poor, even disastrous decisions. The risk of groupthink among trustees is often high in part because they tend not to be drawn from a particularly heterogeneous cross-section of society. A 2017 study of DB scheme trustees led by Aon and the University of Leeds revealed that the overwhelming majority were white and male, with an average age of 54. The most recent data available from the Association of Member Nominated Trustees (AMNT) shows that in 2016, 81 per cent of members completing the survey were male, two-thirds were aged over 55 and only 3 per cent were under 40. The number of trustees with a BAME background also remains very small.

People who share the same background and outlook tend to make similar decisions, so increasing the diversity of the trustee board, in terms of outlook and approach, could help to reduce the prevalence and influence of groupthink. A more diverse set of skills and experience may mean trustees approach specific problems or questions in different, possibly complementary, ways: some may be better at analysing detail, while others are more effective strategists, for example. Some aspects of a board's work, such as making investment decisions, may benefit from the board containing a mix of individuals with different risk appetites. As The Pensions Regulator's 21st Century Trusteeship literature states: "If you have a well-balanced and diverse board, it should be more effective."

"Diversity of thought is certainly very important," says The Pensions Regulator policy manager Louise Sivyer. "Without that, there is a risk that trustees close themselves off to new ideas. They end up doing things a certain way just because that's the way they have always done

them. The biggest risk is that ultimately the members will end up less well off than they might have been."

The regulator and other influential organisations in the pensions industry are seeking to improve trustee diversity. In 2017, the Pensions and Lifetime Savings Association (PLSA) launched a campaign entitled *Breaking the Mirror Image* to encourage more diverse participation on trustee boards. AMNT is also working to increase diversity among member nominated trustees (MNTs) and among the group of people who express an interest in becoming a MNT.

"When we've looked at our own membership, predominantly they are men over the age of 50, so we are encouraging more women to get involved

Necessary dissent

Yet trusteeship also continues to become ever more complex, meaning that the need for diversity has to be balanced against the need for specialist expertise, particularly in relation to investment management and legal matters.

Schemes are also constrained above all by the supply of individuals who are willing to act as trustees. Nor should it be assumed that simply having a more diverse group of individuals acting as trustees will remove the risk of

Summary

- Groupthink is the process of individuals unconsciously mirroring and reinforcing each other's assumptions, attitudes and actions.
- Increasing the diversity of the trustee board, in terms of outlook and approach, can reduce groupthink.
- The need for diversity has to be balanced against the need for specialist expertise.

Question everything

➤ **Groupthink among trustees can undermine the effectiveness of scheme governance and strategy. David Adams looks at what can be done to reduce its incidence and influence**

and we are encouraging more younger people to consider acting as trustees as well," says AMNT management committee member Alan Gander.

But he also stresses that diversity is not just about ticking boxes based on the representation of set groups in society. "It's really about getting people involved who think differently," he says. The aim is to find individuals who will be able to add a fresh perspective to the way the trustees approach their work.

groupthink. As professional trustee and PTL managing director Richard Butcher notes: "Diversity doesn't stop groupthink per se – it just makes it less likely."

It may also sometimes be the case that the longer an individual trustee is in post, the more likely it is that they will become institutionalised to some degree, thus increasing the risk of groupthink. One potential solution to that problem would be limiting the tenure of an individual trustee, as already happens for



master trust trustees and members of the independent governance committees (IGCs) that govern contract-based schemes. The downside of such limits is that it may increase the risk of the board losing valuable experience and expertise.

Gander is not sure that institutionalised groupthink is as big a problem as is groupthink created as a result of a lack of diversity in approach. But he does emphasise the importance of the role played by the chair of trustees to ensure trustees work effectively. In some cases the chair may be an unwitting enabler of groupthink if they allow the need for efficiency to overwhelm the need for adequate discussion and scrutiny of information received from advisors and elsewhere.

This makes it vital that the chair understands the potential risk of groupthink and encourages trustees to scrutinise the information upon which they base their decision and to express their views freely. “You’ve got to have a group of people who think differently to

each other and ask different questions,” says Gander. It is also important that trustees do not always defer completely to an individual on the board who is generally regarded as the resident expert on a particular subject area, such as an actuary or a lawyer.

Butcher also suggests that when it comes to considering decisions that may be particularly contentious, one simple idea that can help to reduce groupthink is to ask each trustee to write down what they think the decision should be and reveal this before anyone explains their views in front of the rest of the trustees. This should enable a more open exchange of ideas and views.

Independent voices

Another step a trustee board may take is to bring in an independent, professional trustee who can offer a broader range of experience. “These might not necessarily be permanent appointments, but instead people brought in for a fixed period, to get an injection of new blood into the boardroom,” says Sivyier. “That may be the best alternative if you are finding it difficult to recruit trustees.”

She highlights the existence, since December 2017, of the draft standards for professional trustees of occupational pension schemes, created by the Professional Trustee Standards Working Group, in which the Association of Professional Pension Trustees was heavily involved. These standards should help to make it easier for schemes to find independent trustees who have the expertise the scheme is lacking.

“The independent professional trustee space is a growing area and it will play an increasingly important role,” says Sivyier. “That’s an area where we are putting some focus at the moment.” She notes that some employers may be able to provide additional resources in order

to help schemes hire professional trustees – it is in the employer’s own interests to do this.

There are also now many different resources and training opportunities that lay trustees can use to improve their knowledge and understanding of their role, including those made available by the regulator, the PLSA, AMNT and other organisations. Both Sivyier and Butcher also emphasise the value trustees can get out of attending conferences and other events where they can meet other trustees and advisers who may be able to provide a different view on how to tackle some of the issues they face.

In the longer term, there is clearly a need to increase the supply of potential trustees. Gander believes the pensions industry, employers and other stakeholders like unions could all do more to improve an understanding of trusteeship among ordinary workers. “We must try to make the topic of pension schemes and being a trustee look like a more interesting job than people think it is,” he says. “And it is an interesting job: if you went through the full list of subjects involved then I honestly think nine out of ten people could be interested.”

In the meantime, he continues, groupthink can be avoided by encouraging trustees to keep questioning and thinking through the decisions the board might make and the underlying assumptions that influence those decisions. “It may be that some people, if they have been trustees for a very long time, sort of think they’ve seen it all before,” he says. “And maybe they are going to be right 90 per cent of the time.

“But what about the other 10 per cent? That’s why I think more younger people, and people from different walks of life, should get more involved, because it’s that questioning process that is so important.”

Written by David Adams, a freelance journalist