

Countering Behavioral Biases in Meetings

The sixth article in the Brandes Institute series “Are Virtual Meetings Here To Stay?”

After a year of “living virtually,” this series of articles examines where there may be benefits to staying virtual in some aspects of investment group decision-making.

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Value investors know that behavioral biases exist everywhere.... almost too many to count! But when it comes to their impact on group meetings, our focus is on those biases related to socialization and communication, two essential aspects of human interaction. We’ve outlined in previous articles how virtual meetings may help us use data and analysis more effectively, while the “softer” person-to-person aspects of meetings tend not to fare as well in a virtual setting. We found the same tendencies when examining behavioral biases.

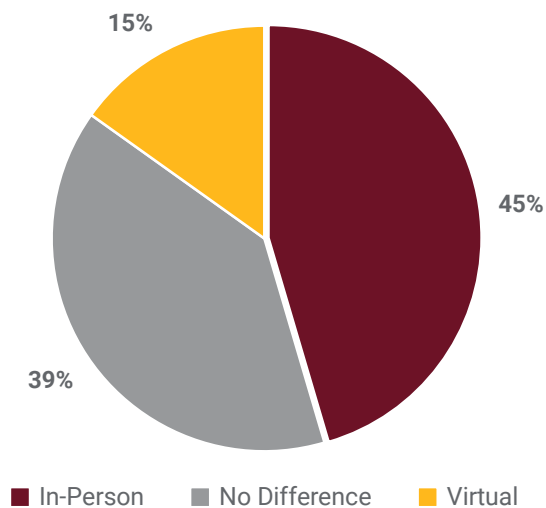
Herding is the social tendency to go along with the crowd, exemplified by the Gandhi quote, “It’s easy to stand in the crowd but it takes courage to stand alone.”¹ Have you ever been in a meeting where you disagree with an otherwise unanimous view, but felt intimidated about speaking up?

The Brandes Institute conducted an online survey with investment professionals around the world who participate in group decision-making meetings. The survey received 97 responses in the April/May 2021 timeframe and focused on the merits of in-person versus virtual decision-making meetings. Respondents

included asset owners, consultants, asset managers and others.

Our survey respondents had mixed views, but tilted toward a preference for virtual meetings as the better setting to avoid the Herding bias.

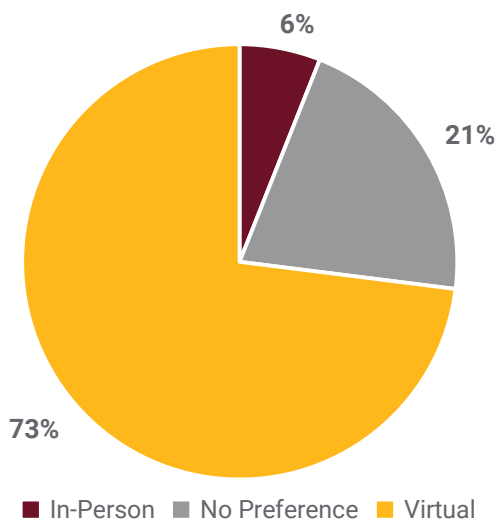
CHART 1: IN WHICH SETTING ARE PARTICIPANTS MORE LIKELY TO GO ALONG WITH THE CROWD?



Source: Brandes Institute, as of 5/4/21

On the other hand, almost three-quarters of respondents favored in-person when the issue was Attribution bias, the tendency to misinterpret other participants' intentions. Their comfort level seems much higher in-person (versus on-screen) when it comes to absorbing all the expressions and body language cues that help figure out the other person's motivations.

CHART 2: IN WHICH SETTING ARE PEOPLE MORE LIKELY TO MISINTERPRET PEOPLE'S INTENT/MOTIVES?



Source: Brandes Institute, as of 5/4/21

Regardless of the meeting setting, behavioral biases will creep into our decision-making. For those meetings that are now online, we should be aware that the group's vulnerability to specific biases may have changed. To the extent that we aim to counter these biases, we need to take them into account.

BEHAVIORAL BIAS: THE MURTHA PERSPECTIVE

One year, when I was a kid, I dressed up as a pirate for Halloween. Like all good pirates, I had an eye patch. Instead of boarding imaginary ships and swinging from ropes, my newly cycloptic self decided to engage in a very un-pirate-like activity—a baseball catch with my friend. Throwing with one eye closed was a bit more challenging than I expected. However, *catching* a baseball with one closed was *much more* challenging, as

evidenced by the surprisingly loud crack of the ball striking me square in the forehead. The episode gave me a new appreciation for the importance of depth perception, as well as a hematoma.

This ocular notion of depth perception applies to group decision-making as well, and for the same reason. When your group's view of a particular issue—e.g., manager selection, regulatory environment, risk management—is monocular in nature, you're risking a fastball to the head.

We know this. The rationale for decision-making being a group exercise is to get those different perspectives, as well as to capitalize on the diversity of thought, opinion and knowledge. The point of group decision-making is not merely to avoid bad decisions after all, it's to make optimal ones. Yet teams often fail to realize these benefits.

The problem tends not to be the people. You can assemble the best and brightest minds in the world in a room or a Zoom call and they can still come to objectively awful decisions (consider the Bay of Pigs plan or Long Term Capital Management, for example). The problem tends to be the processes, particularly biases that short circuit and subvert the collective analysis.

Researchers in the field of behavioral finance are known for identifying cognitive biases. In the case of group decision-making, most of these biases (e.g., herding, conformity bias, confirmation bias, overconfidence bias) are related to the concept of "Groupthink" (Janis, 1972), "the notion that concurrence-seeking becomes so dominant in a cohesive ingroup that it tends to override realistic appraisal of alternative courses of action... the term refers to a deterioration in mental efficiency, reality testing and moral judgments as a result of group pressures."

Here are four steps you can take to counter cognitive/behavioral biases that undermine group decision-making in virtual and in-person settings.

THEORY TO ACTION: DR. MURTHA'S PRACTICAL TIPS TO AVOID GROUP BIASES IN VIRTUAL AND IN-PERSON MEETINGS

- 1. Incorporate Polling:** Interestingly, our research found that Groupthink biases (such as *herding* or *conformity bias*) were more likely to occur during in-person meetings. That may seem surprising until you consider how much easier it is for people to say some things over a computer than to say those same things to a person's face. One relatively simple and inexpensive way to combat this tendency is incorporating electronic polling as part of your meetings. When doing so, it is best not to save the poll for some sort of final vote, but to incorporate a number of questions along the way that address factors such as priorities, goals, and critical factors. That will help steer a more productive conversation and take the pressure off an eventual "yea/nay" vote.
- 2. In-Person First:** Our research found that people felt much more likely to misunderstand intent and motivation in a virtual setting (i.e., *attribution bias*). It's the same reason people use "emojis" in texts; a lack of physical presence makes it harder to transmit and receive non-verbal cues. For high-trust groups, this is not generally a concern. But if your group is comprised of members who are new or unfamiliar to one another (perhaps even generated out of a corporate realignment or merger), virtual meetings can contribute to misunderstanding and mistrust. It is a good practice to opt for in-person meetings for new/unfamiliar groups when possible, before integrating virtual meetings once group cohesion has had a chance to develop.
- 3. Reward Disconfirmation:** One of the most consistent and predictable biases in a group setting is *confirmation bias*—i.e., the natural tendency to believe facts/narratives that support our pre-existing beliefs while discounting those that do not. A meeting, whether online or in a room, is designed to counter that tendency by providing diversity of thought. But it takes effort, particularly when meeting participants are aligned in their belief systems and motivations. It is therefore useful to include a structured component that not only allows for disconfirmation, but *actively rewards it*. Pose questions such as, "What are we *not* thinking of?" or "What would cause this to fail?" and "What are the best arguments *against* this?" Then go so far as to offer a reward/prize of some sort for the best answers. Not only will this generate different perspectives, but makes it socially acceptable to do so—a major obstacle with high-agreement groups.
- 4. Take Turns Sharing:** Group knowledge is a bit like a Venn Diagram of circles. Each circle represents the knowledge of the participants. An effective meeting maximizes the total surface area of all the circles. But a behavioral bias called the *shared information bias* hinders this process by focusing group attention on where circles overlap (common knowledge) to the exclusion of where they do not (unique knowledge). We want to make sure that every participant is encouraged to 1) speak and 2) shares areas of *unique* knowledge. Building a structure into the meeting that gives each member an allotted time of uninterrupted speech with a particular directive to share different insights, experiences or knowledge is an effective way to surface and analyze more complete information.

¹ <https://www.goodreads.com/quotes/434393-it-s-easy-to-stand-in-the-crowd-but-it-takes>

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