Why Good Leaders Make Bad Decisions

Andrew Campbell

ABSTRACT

Governance is about better decisions. So we need to understand why capable people make bad decisions. Self-interest, which leads to unethical behaviour and fraud, is one well known reason for bad decisions, and one reason why we seek to have independent directors and governors. But there are other equally powerful reasons for bad decisions that arise, like self interest, because of the way the brain works.

The brain arrives at judgements in the subconscious and uses the prefrontal cortex (the conscious mind) to test and challenge these judgements. Since the subconscious relies on pattern recognition and emotional tags to form judgements, it can easily be biased. When previous experience or previous decisions seem relevant, but are misleading, the resulting judgments can be bad. Generals are always fighting the last war. When personal attachments to people, places or things are affected, the resulting judgments can be bad. Love blinds. When personal interests clash with stakeholder interests, judgements can be bad. Power corrupts absolutely.

So we need to design our governance processes with these roots causes of bad decisions in mind. Independence can reduce self-interest and help to offset biases from attachments. But, expertise and power are needed to offset misleading experiences. Moreover, each decision will have different biases suggesting that the governance processes should be tailored for each major decision. In particular, attention needs to be given to the balance of power in each decision: who is the champion, who has challenged, who has been influential? Alongside some blanket policies about good governance practice, boards need to spot when decisions may be biased and then add governance processes to safeguard them against error.