

IS GROUPTHINK AN ISSUE FOR YOUR ORGANIZATION?

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In 1972 Dr. Irving Janis published his book, Victims of Groupthink: A psychological Study of Foreign Policy Decisions and Fiascoes (Houghton Mifflin Company).

“**Groupthink**”, according to Dr. Janis, is a phenomenon that arises from group-induced pressure which can lead to a deterioration of “mental efficiency, reality testing and moral judgment”. The focus of Janis’ analysis was U.S foreign policy decisions such as: the Korean War stalemate, escalation of the Vietnam War, the failure to prepare for the attack on Pearl Harbor and the Bay of Pigs invasion.

I also contend that **Groupthink** contributed to the current financial crisis and that’s why I think it’s a relevant topic for Leora's clients.

Many assert that the present global financial crisis was created by numerous factors -- cheap credit, lax regulatory oversight, weak risk management, uninvolved/uninformed boards, human greed and.... **Groupthink**. Dr. Janis documents eight symptoms of **Groupthink** in his book. I’m highlighting a few which may be applicable for the current financial crisis, as well as the potential financial well being of your organization. Ask yourself the questions following the symptoms to determine your organization’s vulnerability to Groupthink.

Direct pressures on dissenters- *members are under pressure not to express arguments against any of the group’s views*

Does voicing a contrarian opinion isolate someone as a non-team player? Do healthy debates divide or foster better relationships? Are individuals able to respectfully disagree or must consensus rule the day?

Collective rationalization- *members discount warnings and do not reconsider their assumptions*

Are discussions frequently held which debate the assumptions underlying conclusions? When is the last time a risk assessment of unlikely outcomes was discussed? When was the last "what if" meeting you participated in held?

Self-censorship - *doubts and deviations from the perceived group consensus are not expressed*

When was the last non-unanimous vote on your Board? Have you withheld a question in discussion which might be viewed as opposing the CEO's/Chair's expressed view?

Illusion of unanimity - *the majority view and judgments are assumed to be unanimous*

Does your internal process require documented votes by individuals? in the past year

how many votes either opposed or abstained due to disagreement with majority?

I am involved with several non-profit organizations as a volunteer, serving as Treasurer, Finance Committee or Board member. Recently I served as a member of the King County Investment Advisory Panel that reviewed the \$4 billion Investment Pool after it had sustained losses in Structured Commercial Paper Investments*. Unfortunately our Investment Advisory Panel was convened only after the King County Investment Pool suffered losses of 45% of the original investment value for some of the investments!

In each of my fiduciary roles, I feel I have an obligation continually question the status quo. Unquestioning acceptance and trust will inevitably place an organization in an undesirable or unintended financial position. Respectfully disagreeing with a decision is not the hallmark of a non team player!

Lack of due diligence by investors was a key to the longevity of the highly publicized Bernie Madoff Ponzi scheme. If investors had investigated and reviewed the investment returns with an eye towards understanding the source, it would not have been difficult to identify the sham. Fictitious returns can easily be identified utilizing a benchmarking review process, for example.

If transparency is not available from your investment manager you should avoid allocating a single investment dollar with them. A well-written investment policy will clearly define the goals and supporting infrastructure that management and the Board should review on a monthly basis.

In an interview with the Wall Street Journal** , Stuart Tauber, senior vice president for financial resources development explained why UJA-Federation New York chose not to invest with Bernie Madoff even though he was an important, active member of the organization.

“ Part of that was because we had very strong no-conflict policies in place and some very tough oversight that kept us out of that one area...Then, also, Madoff didn't seem like the kind of funds that we should represent UJA investment funds in. It wasn't transparent enough for us. The checks and balances just helped us.”

An annual review by management of policies, operating procedures and scenario risk analysis should be a mandatory requirement imposed by the organization's Board. A healthy discussion of financial goals and outcomes should be held at least quarterly at Board level to ensure no unintended outcomes or surprises surface.

As a Board member or executive, your fiduciary responsibility is to continually question and review the financial environment you operate under to ensure your organization is optimizing its' potential. Whether it is investment policy, investment manager performance or your financial planning, the last 2 years have demonstrated the need to constantly review and challenge the present operational environment.

Groupthink precludes tough, instructive discussions to occur and stifles healthy debate. Sometimes it takes an outsider to recognize when **Groupthink** has crept into the organization. As an outsider, I can help your organization review and identify key policy and investment challenges and point out where Groupthink may become an issue.

**An 80+ page public document is available on the King County website if you are interested in reviewing the report.*

*** “How a Charity Avoided Scandal --Conflict of Interest Rules, Due Diligence Helped UJA Skirt a Madoff Hit” by Heidi N. Moore, The Wall Street Journal December 26, 2008*