

Psychological Safety in The Boardroom

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ABSTRACT

This study explores the importance and implications of psychological safety for board dynamics and decision-making processes and emphasizes the benefits of psychological safety, including improved team performance, a culture of learning, innovation, and enhanced company performance. The role of boardroom dynamics and biases in shaping board effectiveness is also highlighted. Dysfunctional dynamics and biases can hinder constructive dialogue and decision-making, underscoring the need for psychological safety in the boardroom. To manage psychological safety at the board level, this study introduces the Closed Loop Management System, which provides a framework for maintaining "always-on" psychological safety. By following the prescriptive framework provided, boards can enhance their performance, act in the best interests of their company and shareholders, and contribute to organizational effectiveness.

Keywords: psychological safety, board directors, CEO, boardroom, board governance

1. Introduction

In recent years, the concept of psychological safety has gained significant attention in the field of organizational psychology. It refers to the shared belief among team members that they can freely express their ideas, concerns, and questions; take risks; and admit mistakes without the fear of negative consequences. However, while psychological safety has been extensively studied in team settings, its application and significance in the boardroom have received relatively less attention. The boardroom is a unique setting where high-stakes decisions are made, and the dynamics and interactions among board members play a crucial role in determining the effectiveness of governance. To address this gap and provide a novel approach to enhance boardroom dynamics, this study introduces a prescriptive framework for "always-on" psychological safety in the boardroom.

2. Psychological Safety

2.1. Definition of Psychological Safety

The idea of creating a safe work environment was first introduced in 1965 (Schein and Bennis, 1965). However, it was not until the 1990s that academic interest in the concept began to grow when Edmondson, a researcher at Harvard University, coined the term "psychological safety" to describe the shared belief among team members that they can express their ideas, concerns, and questions; take risks, and admit mistakes without the fear of negative consequences (Edmondson, 1999). In other words, psychological safety is the "felt permission for candor" (Gallo, 2016).

2.2. Implications of Psychological Safety

Psychological safety is a critical factor for teams and organizations because of its numerous benefits. These include:

- *Improved team performance:* Members feel more comfortable voicing their opinions, leading to higher quality communication, trust, and better decision-making (Newman et al., 2017).

- *Cultivating a culture of learning:* Members feel comfortable sharing their mistakes and learning from them (Edmondson, 2018).
- *Encouraging innovation:* Strong and cohesive groups enhance the confidence of members and enable innovation (Proudfoot et al., 2007).
- *Enhanced company performance* (Baer and Frese, 2003).

A research study conducted at Google in 2016, known as Project Aristotle, aimed to understand the factors that impacted team effectiveness across Google using over 30 statistical models and hundreds of variables. The study concluded that who was on a team mattered less than how the team worked together and that psychological safety was the most important factor (Duhigg, 2016).

3. Boardroom Dynamics and Biases

3.1. Boardroom Dynamics

Board effectiveness is heavily dependent on socio-psychological processes, particularly those related to group participation, information exchange, and critical discourse (Forbes and Milliken, 1999). The composition of a board and its demographics can play a role in shaping group dynamics. In some cases, boardroom interactions may not foster constructive dialogue, and directors may be hesitant to voice dissenting opinions (Zhu, 2013, Westphal and Khanna, 2003, Westphal and Zajac, 2013, Hambrick et al., 2015). This can lead to dysfunctional dynamics, in which critical issues remain unaddressed and decision-making suffers (Lorsch and Young, 1990). If left unattended, dysfunctional dynamics will become part of a board's culture, which involves a set of customs, practices, and often unspoken rules about "how we get things done around here." To overcome these challenges, directors must be able to surmount the pressures stemming from boardroom dynamics, particularly during episodes of conflicting ideas (Boivie et al., 2016) and diverging viewpoints (Hambrick et

al., 2015, De Dreu and Weingart, 2003, Deutsch, 2007, Mooney et al., 2007, Xie et al., 2014). Hence, psychological safety plays an important role in boardrooms.

3.2. Biases in the Boardroom

Effective decision-making is critical for board success, but it is not always a rational process. Human cognitive and emotional factors can lead decision-makers to go astray, resulting in systematic errors and biases (Simon, 1947). Directors rely on a limited number of heuristic principles to reduce the complex tasks of assessing probabilities and predicting values for simpler judgmental operations. In general, these heuristics are quite useful but sometimes lead to severe and systematic errors (Tversky and Kahneman, 1978). Biases that commonly occur in boardrooms include groupthink (Irving, 1973), overconfidence, the Dunning-Kruger effect, belief perseverance, confirmation bias, hindsight bias, anchoring, and representativeness. These biases can undermine the quality of decision-making; therefore, boards need to be aware of them and take steps to mitigate their impacts. Bounded rationality (Simon, 1955), which recognizes the limits of human rationality and the role of heuristics in decision-making, provides a useful framework for understanding these biases.

4. High-Performance Boards

4.1. Definition of High-Performance Boards

The concept of a high-performance board lacks a set definition, but diagnostic questions can help frame what constitutes a high-performance board. These questions pertain to identifying stakeholders' expectations, understanding what the chief executive officer (CEO) needs and expects from the board, defining quality participation and contribution, evaluating the board's policies and practices, assessing the competencies and skills needed for the board, identifying potential board members, setting well-defined boundaries between the board and the executive team, and having the strength and depth to steer the company through challenging situations (Luke Meynell and Sedel, 2012).

4.2. Elements and Characteristics of High-Performance Boards

The most important elements contributing to a board's success are high strategic focus, highly effective controls, and high-performance teamwork (Cossin, 2020, Roos et al., 2018, Sonnenfeld, 2002, Rhodes et al., 2016). The details of these elements and their related characteristics are explained. The first two elements address the "what," while the third element addresses the "how." Further, Section 5.2 ("Psychological Safety as a Key Enabler") will demonstrate that psychological safety is a key enabler for the "how."



Figure 1: Core elements and key characteristics of high-performing boards

Source: prepared by the study's author

4.3. Characteristics of Least-Performing Boards

The characteristics commonly shared by companies involved in high-profile failures include having a dominant CEO, a culture that restricts the board's ability to challenge management, directors lacking industry experience, and a dysfunctional company culture. Such cultural, structural, and personal fault lines can create chasms once a crisis begins.

5. Importance of Psychological Safety at the Board Level

5.1. Psychological Safety as a Key Enabler

Considering each characteristic of high-performance teamwork, we can easily realize that psychological safety is a key enabler for each of them. Based on video-taped observations of board meetings and interviews, a study validated the importance of psychological safety at the board level (Veltrop et al., 2021). Another study on nonprofit boards found a similar result (Dowley, 2006).

5.2. Case Studies

Several companies have experienced failures attributable to the lack of psychological safety at the board level. One example is the scandal involving Wells Fargo, which was found to have created millions of fraudulent customer accounts to meet aggressive sales targets. According to a report commissioned by the company, the board failed to provide adequate oversight and lacked the psychological safety necessary for the directors to raise concerns and challenge management decisions. Another example is Uber, which has faced a series of scandals related to workplace culture and leadership behavior. A blog post by former employee Susan Fowler described the toxic culture of harassment and discrimination that she attributed, in part, to a lack of psychological safety at the board level. A third example is Nokia's downfall, which has been attributed to several factors, including shared fear among top and middle managers regarding Symbian, their operating system, and

becoming obsolete (Vuori and Huy, 2016). Fear was also reported in the fourth case the VW Dieselgate (Cremer & Bergin, 2015).¹

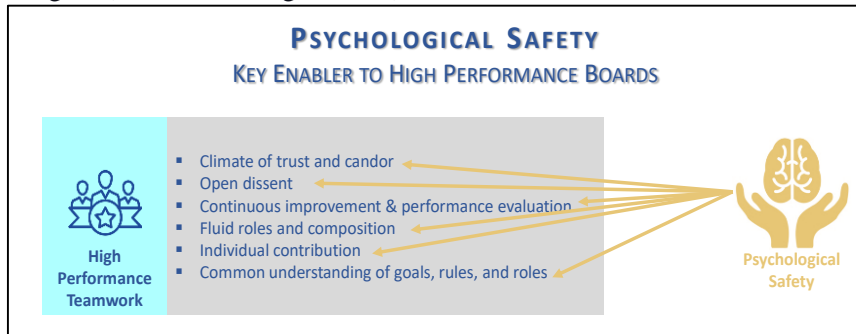


Figure 2: Psychological safety as a key enabler to high-performing boards

Source: prepared by the study’s author

6. Managing Psychological Safety at the Board Level

6.1. Closed Loop Management System for an “Always-On” Psychological Safety

To ensure an “always-on” psychological safety in the boardroom, I developed the Closed Loop Management System (Figure 3). In developing the tool, I was inspired by Kaplan and Norton’s work on the Balanced Scorecard (BSC), which relies on four processes to bind short-term activities to long-term objectives: translating the vision, communicating and linking business planning, and feedback and learning (Kaplan and Norton, 1996).

The framework depicted in figure 3 shows the different steps a board should follow to achieve “always-on” psychological safety. Step 1 [*Set Guardrails*] involves setting explicitly articulated guardrails (Section 6.2.) to reduce the risk of interpersonal discord. In

Step 2 [*Formulate the Ambition*], the board defines the thought-after climate, mindsets, and behaviors conducive to a psychologically safe boardroom. In Step 3 [*Assess the Situation*], the board assesses the situation (Section 6.3.) vis-à-vis the vision set in Step 2. The results of the assessment feed into Step 4 [*Intervene & Act*], where the board intervenes and takes corrective intentional actions. These interventions include educational training, case studies, and simulation exercises² (Shuffler et al., 2018). Other actions include firing or assigning coaches to struggling directors or chairs. Post implementation, Step 5 [*Monitor & Learn*] starts when reviews take place to monitor and learn. Reviewers can ask for feedback using technology at the end of each board meeting. The outcomes are taken back to Step 2 [*Formulate the Ambition*], where the loop starts all over again.

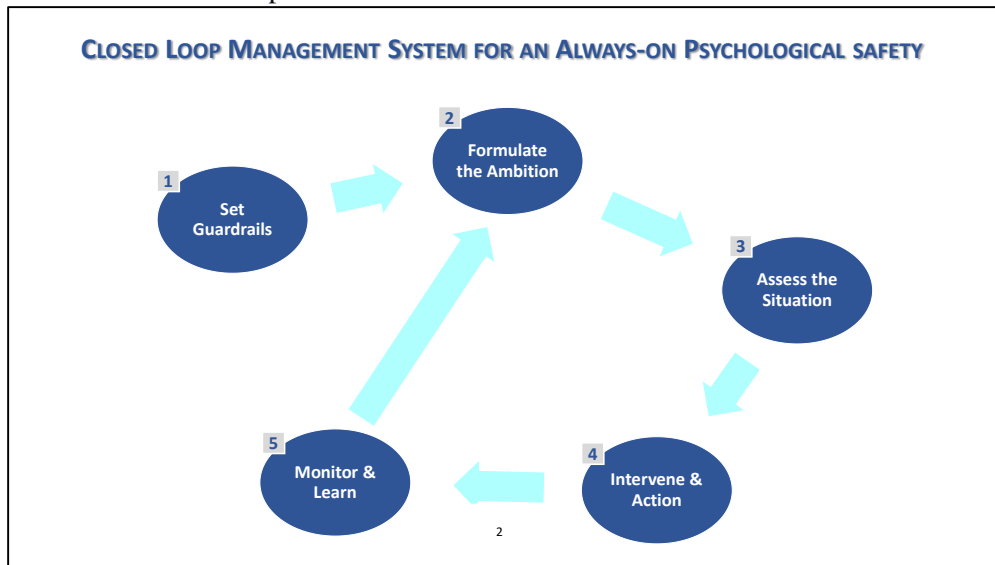


Figure 3: Closed loop management system for an “always-on” psychological safety at the boardroom

Source: prepared by the study’s author

6.2. Setting Guardrails

Guardrails should consist of guidelines (codes of conduct and whistleblowing policies) and agreements. The latter can be used in a variety of settings to create psychological safety and avoid friction because unspoken or unclear agreements are not easily addressed, as they are not universally understood. An

example of such agreements is the CENTRE³ tool (Cave et al., 2016).

6.3. Assessing the Situation

Time for thoughtful self-evaluation, through assessments, is critical for continuous improvement. Assessments can be conducted at three levels: the board as a group, chairs and

¹ <https://www.reuters.com/article/us-volkswagen-emissions-culture-idUSKCN0540MT20151010>

² Participants are presented with one of two simulated scenarios with an opportunity to challenge each other. This should be followed by a debriefing session including discussion and self-reflection. After that, the best practice should be introduced and participants should be given the opportunity to apply learnings in the second simulated scenario.

<https://ijbssrnet.com/index.php/ijbssr>

³ CENTRE is a mnemonic for: Confidentiality, Equal airtime, Non-judgmental (respectful) listening, Timeliness, Right to pass, Engaged



committee chairs, and individual directors. At the individual level, 360 reports are recommended⁴. At the group level, there are many tools available, including the Team Learning and Development Inventory (Lingham, 2005) and the Cultural Intelligence Assessment (Earley and Mosakowski, 2004). However, particular areas of interest include group dynamics, open-dialogue skills, self-awareness, cultural awareness, developing high-quality social relationships in teams, mindful listening, situational awareness, unconscious biases, and situational humility (De Smet et al., 2021). Consequently, the most referred-to tool is Edmondson's simple 7-item questionnaire (Edmondson, 1999).

6.4. Potential Barriers for Implementation

Boardroom politics, a lack of resources (financial and time), and a lack of commitment are potential barriers to implementation. It is important to address these barriers to ensure the success of the system.

7. Conclusion

In conclusion, the concept of psychological safety is crucial in the boardroom, as it plays a significant role in shaping

board dynamics and decision-making processes. When team members feel that they can express their ideas, concerns, and questions without the fear of negative consequences, it leads to improved team performance, cultivates a culture of learning, encourages innovation, and enhances company performance. Therefore, board members must ensure that their boardroom environment is conducive to psychological safety. By following the prescriptive framework provided in this article for "always-on" psychological safety, boards can improve their performance and ensure that they are acting in the best interests of their company and their shareholders.

Although the literature highlights the importance of psychological safety at the board level, there is still a need for further research. Future studies could explore the mediating mechanisms through which psychological safety influences team performance, efficacy, and learning behavior. Harmonizing assessment methods and investigating the consequences of psychological safety in different contexts would contribute to a deeper understanding of its role in organizational effectiveness.

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⁴ National Association of Corporate Directors (NACD), *Adaptive Governance: Board Oversight of Disruptive Risks*, 2018 <https://ijbssrnet.com/index.php/ijbssr>



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