Experts on corporate boards: more is not always better

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RDECOM Board of Directors holds meeting, by U.S. Army RDECOM, under a CC-BY-2.0 licence

Expectations on corporate boards are on the rise, and directors who are experts in the company's home domain are, understandably, in high demand. Because those experts can more fully grasp all the ins and outs of difficult decisions, organisations with more experts in their boards should in principle perform better. The more experts, the better, common sense might suggest. And this might seem especially true in uncertain periods, when expert judgment is particularly valuable. But are there also negative effects of expert-heavy boards? That's the question we set out to answer in our research on boards of directors of community banks. Though there is a large literature on professional diversity in decision-making teams, little is known about the impact of expert-heavy boards.

Through our analysis of thousands of banks over more than a decade, we found that boards with a high proportion of domain experts are generally neither better nor worse than boards with few experts. But when facing uncertainty, expert-heavy boards are actually *more* likely to hurt the chances of an organisation to survive. Our research suggests that this non-intuitive finding may be due to three factors that undermine the effectiveness of expert-heavy boards, especially in uncertain contexts: (1) cognitive entrenchment, (2) overconfidence, and (3) the suppression of alternative views.

First, *cognitive entrenchment* refers to the habits and beliefs that experts develop during their long experience in their fields. When experts join other experts in decision-making teams, cognitive entrenchment tends to become accentuated. This means that team members may be more fixed in their professional perspective and less willing to incorporate other views or new information. CEOs and other directors we interviewed spoke of the "baggage" that comes from prior banking experience. They also described the mental patterns that prevented expert-heavy teams from looking at a situation "with fresh eyes." Organisations operating in uncertain conditions may discover the hard way that flexibility is critical at those times.

Second, too often, experts are *overconfident* in the accuracy of their own projections, especially when surrounded by other experts in decision-making teams. Overconfidence can be contagious in teams, leading them to potentially discount certain risks. As one CEO put it, "If I got a board which has got a lot of bankers on it, they are going to tend to reach for loans a little bit more because they believe that they have got a little bit more background and experience. Whereas other people who aren't bankers tend to be a little more cautious." Among expert directors, we found a strong belief that "almost every deal is doable." Sometimes, as an expert director put it, "the market is not willing [to provide a loan], but you do because you know better." Failing to appreciate the gravity of certain risks could be lethal when a firm enters a volatile period.

Third, there might not be enough *task conflict* on boards with many domain experts. Task conflict is the extent to which directors express different viewpoints, ideas, and opinions about the decisions they face. Some amount of task conflict is essential because it allows the board to explore and discuss more alternatives. But research suggests that a high proportion of domain experts can suppress task conflict because directors may defer too much to the judgment of experts. CEOs we interviewed noted that when some directors had "massive banking experience," non-experts had too much respect for them, and they did not "really call each other out." An absence of task conflict can be especially damaging during periods of uncertainty, when divergent views are especially critical.

That's what we found in our longitudinal analysis of the board composition and survival chances of 1,307 banks between 1996 and 2012. In the full sample of banks, there was no clear relationship between the proportion of domain experts in a board and bank survival. But for banks that faced high levels of uncertainty, having a high proportion of domain expert directors meant a higher chance of bank failure. So, under uncertainty, the more banking experts on the board, the greater the likelihood that a bank would go out of business.

Building on prior research and our interviews, we focused on three conditions under which banks should experience greater uncertainty: (1) rapid asset growth, (2) operations in unusual loan markets with atypical, heterogeneous clients, and (3) intense competition in local markets. Under these conditions, bank boards were especially vulnerable to the dark side of expertise.

To put these findings in perspective, most boards in our sample had at least two banking experts (out of ten directors on average). Thus our results do *not* imply that domain experts should be avoided. Rather, our findings suggest that domain experts should be balanced by experts in other professional fields—especially when organisations face significant uncertainty.

It's also worth noting that a board with a high concentration of domain experts is not the same as a board with little professional diversity. The concepts involved are distinct. For example, a board of a bank with five bankers, three lawyers, and two physicians is just as diverse overall (in terms of professional backgrounds) as another bank with two bankers, five lawyers and three physicians. But these two bank boards are very different in the proportion of domain expert directors. The former has five domain experts (out of ten directors); the latter has only two.

This is one of the first studies exploring the possible negative impact of domain expertise in decision-making teams. We hope other studies will continue to shed light on the conditions under which accumulating expertise in decision-making teams may backfire.

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Notes:

- *This blog post is based on the authors' paper When Experts Become Liabilities: Domain Experts on Boards and Organizational Failure, in Academy of Management Journal, August 1, 2016 vol. 59 no. 4 1124-1149*
- *The post gives the views of the author, not the position of LSE Business Review or the London School of Economics.*
- *Before commenting, please read our* Comment Policy.

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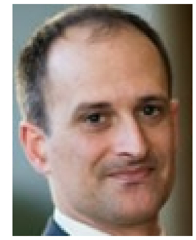

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