

White Paper Snapshot

**Enhancing Board Oversight:  
Avoiding Judgement Traps and Biases**



Given the formidable challenges of making sound judgements in a business environment that is increasingly complex, uncommonly uncertain, rapidly changing, and high-pressure, many audit committee members will find this new white paper from CSCO<sup>1</sup> (coauthored by KPMG and two Brigham Young University professors) – *Enhancing Board Oversight: Avoiding Judgement Traps and Biases* – to be a particularly timely and helpful resource.

Many audit committee members continue to cite ‘groupthink’ as a significant concern and express the need to hear more ‘dissenting views, particularly from down-the-line,’<sup>2</sup> to help them to be more effective in their oversight of financial reporting, internal controls, compliance, strategy and risk.

We invite you to read the full white paper (available at [coso.org](http://coso.org)) and offer the following snapshot of key insights from the paper, shown overleaf.

<sup>1</sup> Committee of Sponsoring Organizations of the Treadway Commission

<sup>2</sup> KPMG’s 2011 Annual Audit Committee Member Survey

Key insights from the paper	
A good judgement process, <sup>3</sup> followed consistently, can help improve decision making and oversight, but ‘traps and biases’ can undermine the process.	The paper offers the following judgement process, based on KPMG’s five-step judgement framework: 1) Define the problem and identify fundamental objectives; 2) Consider alternatives; 3) Gather and evaluate information; 4) Reach a conclusion; and 5) Articulate and document rationale. These steps appear simple, yet each is vulnerable to common traps and biases, and the white paper discusses how and where things can ‘go wrong’.
Our natural, intuitive judgement processes can betray us.	As with optical illusions, intuitive judgements, by even the most seasoned professionals, can fall prey to cognitive illusions, undermining good judgement. Being aware of judgement traps and biases, and applying certain logical steps, can help reduce their impact, as illustrated in the white paper with real-world examples.
Beware of three particularly common judgement traps:	<ul style="list-style-type: none"> <li>• ‘Rush to solve’ (a tendency to strive toward quick compromise and early consensus, often to avoid conflict);</li> <li>• ‘Groupthink’ (suppression of divergent views and/or acceptance of dominant board members’ views expressed early on); and</li> <li>• ‘Solving the wrong problem’ (often by not carefully/precisely defining the problem).</li> </ul>
How you ‘frame’ an issue determines how you see it (or don’t see it).	Judgements can be improved by identifying the frame(s) through which management and other board members view the issue (e.g., while management may frame a particular risk as a <i>strategic opportunity to be pursued</i> , board members and others may see it more as a <i>major risk to be managed</i> ). Considering the issue from the vantage point of multiple frames – through a ‘fresh lens’ – and hearing views from down-the-line or from external sources can help provide additional/alternative perspectives of an issue or problem.
Beware of four common biases that can undermine good judgement:	<ul style="list-style-type: none"> <li>• ‘Overconfidence’ (tendency of decision-makers to overestimate their abilities to consistently make effective decisions);</li> <li>• ‘Confirmation’ (tendency to seek out or put more weight on information that supports an initial opinion);</li> <li>• ‘Anchoring’ (being closely ‘wed’ to an initial numerical figure and reluctant to adjust sufficiently away from it);</li> <li>• ‘Availability’ (tendency to consider information that is easily retrievable from memory as ‘more likely, more relevant, or more important’ for making the judgement).</li> </ul> The white paper discusses ways to mitigate the effects of these common experts and testing their assumptions, and encouraging opposing points of view.
The first step for improving judgements is awareness.	As emphasised in the paper, ‘awareness of the common threats to good judgement is the key initial step in improving judgement’. Board members can use the insights provided in the white paper to test and improve the consistency and quality of judgement processes and outcomes by rigorously challenging perspectives and assumptions, and by actively applying a systematic judgement process while staying vigilant to the traps and biases that can undermine judgements of even the most seasoned professionals and boards.

**Download the full paper:** [Enhancing Board Oversight: Avoiding Judgement Traps and Biases](#)

<sup>3</sup> ‘Judgement’ is defined in the paper as ‘the process of reaching a decision or drawing a conclusion when there are a number of possible alternative solutions.’

## Contact us

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