Decision making for boards

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# Decision making for boards

Many sector boards will be using a charter that references decision making as follows:

*In respect of major decisions reserved to the board, the board acknowledges the value of a systematic and deliberate approach. To that end:*

* *For expenditure related decisions and decisions in non-financial areas defined as ‘significant’, it will set out the main steps it will take before reaching its decision.*
* *One of those steps will be to define the criteria by which it will evaluate alternatives.*
* *The board will conduct a formal post-implementation evaluation of decisions that fall under this policy.*

Some organisations have asked for guidance on the points above, particularly ‘main steps’, ‘defining the criteria’, and ‘post-implementation evaluation’.

## The decision process

Processes will vary depending on the organisation and the scale and type of decision. In designing any process there are some solid principles to keep in mind.

Firstly, the process itself is of central importance. Research[[1]](#endnote-1) indicates that the process matters more than analysis, by a factor of six. Without a robust process the chances of success are significantly lower.

Sure, it is possible to have a great result from a poor process. That’s called luck and may be a one-off. Equally it is possible to run a great process and have an indifferent result. In this case, there is a framework for reflection, learning, and improving the chance of success next time. That does not mean that analysis is unimportant but rather than a good process is likely to weed out poor analysis.

Perfect decisions don’t exist. Gaining absolute certainty can be time consuming and costly if more research is sought. The challenge for those making decisions is to ensure that the process is designed to:

…achieve sufficient certainty (on an informed basis) when not everything about a decision is known[[2]](#endnote-2)

Decisions are subject to bias and noise. Noise is the variability of decisions made with the same information, often influenced by irrelevant factors, mood weather, or even results from a favoured sports team. A consistency of skewed decisions indicates a bias. We are all subject to bias, in how we collect and filter information and how we apply it. Boards in particular can be prone to group think. A questioning approach to information is needed. That does not mean being the non-believer in the room but a willingness to accept that what seems to be real today can change with the advent of new information.

# Levels of decision

Not all decisions are the same. A good model for assigning the level of importance to a decision can be found below and in the Appendix:

##### Housekeeping/routine

Straightforward and not material. Likely no discussion required. Can be placed within the consent agenda[[3]](#endnote-3).

For example, a change in signing authority.

Expectations of management: A simple, formal request

##### Binary or simple confirmation

Limited complexity. Some due diligence and a short conversation. Typically binary (thumbs up or down).

For example, the extension of a lease.

Expectations of management: Short paper and brief presentation.

##### Multivariate and/or subjective

The chair is actively involved in the process of seeking alignment on the key factors to be assessed and their relative importance. A good chair will informally canvas directors on the matter, asking what information is needed to help make this decision and what are the determinants against which the proposal will be viewed. Management should be aware of those factors. The chair will actively guide the conversation, seeking clarification, checking for understanding, seeking input, looking for cracks in the case.

For example, the purchase of an existing event.

Expectations of management: Full decision paper and supporting materials (see below).

##### Fundamental or mission-critical decisions

High complexity or ‘bet the farm’ decisions. It is possible there will be no consensus on the key decision variables, and the decision is likely to be close to the heart of organisational purpose and/or values. These decisions take time and may need more than one session. It is possible full consensus may not be reached. A good process at this level may lead to solutions or mitigations not contemplated at the start.

For example, cessation of a long-standing section of the business and major pivot to another strategic approach.

Expectations of management: Full decision papers, and likely considerable background material and third-party perspectives brought to the board (see below).

There are other similar frameworks for assigning levels of importance to a decision. Some add crisis decisions to the model, requiring rapid decisions on imperfect information. The board should avoid boiling the ocean on the first two categories.

# Decision process

Again, there are many frameworks that can be used for the decision process. This one from McKinsey & Co[[4]](#endnote-4) is simple and can be applied even in small organisations. It has four key elements:

1. Framing the decision: Defining the problem or opportunity and setting clear objectives.
2. Gathering information: Collecting relevant data and insights from diverse sources.
3. Evaluating alternatives: Generating and assessing options against decision criteria.
4. Making the decision: Choosing the best option and developing an action plan.

##### Framing the decision

If I had an hour to solve a problem and my life depended on the solution, I would spend the first 55 minutes determining the proper question to ask, for once I know the proper question, I could solve the problem in less than five minutes.

The above quote, attributed to Albert Einstein, makes clear that analysis is the key driver of success. It also alludes to the often seen issue of a solution looking for a problem.

Major decisions should have a demonstrable connection to the outcomes framed in the board’s statement of intent. The proposal will be addressing an opportunity that is intended to progress the outcome or address a matter that is impeding that progress. Being clear about the intended change is a necessary precursor to setting evaluation criteria. It should be clear on timing: why this is necessary now and not in six months or next year.

**What is required:** Nature of the opportunity or problem being addressed. Clear link to the board’s outcomes. Clear statement of the intended positive change from the action proposed and what success will look like. Clarity and reasoning on timing.

Gathering information

It is reasonable to expect that directors should be reading generally around issues that are core to the organisation’s mission and strategy. That is part of the board being a learning entity and there should be a planned process to ensure the board is knowledgeable in critical areas. That knowledge is necessary to test and challenge major proposals.

However, management will be doing the lifting on information gathering to frame the decision. Management should expect directors to constructively challenge the information and assumptions underlying a proposal. Below is a useful checklist.

Is this information:

* Recent – up to date on current trends.
* Relevant – pertinent to the proposal.
* Credible – reputable sources.
* Reliable – accurate and consistent.
* Complete – does this cover all the relevant factors.
* Free from bias – from neutral sources.

If there are credible divergent opinions, they should be included. Equally, knowledge gaps should be made clear, and any assumptions made outlined.

Management is expected to synthesise information, not throw it at the board as a great lump of data. It is expected that they offer an informed opinion based on the material gathered, but provide the necessary links for directors to interrogate source material if desired.

**What is required:** Analysis of available information. Management is expected to offer opinion but to make clear the following: Sources and utility (as above) of information, who was consulted, obvious knowledge gaps, contrary opinions, any assumptions made and areas of uncertainty.

Evaluating alternatives

There is a common heuristic: “just considering one more alternative doubles the chance of success”. This is known as the ‘Rule of Three’ or the ‘Three-Option Rule’, which suggests that having three options to choose from increases the likelihood of making a successful choice.

Strategist Roger Martin[[5]](#endnote-5) suggests that doing nothing (status quo) should always be one of the options on the table as organisations can be prone to insistent action regardless of necessity.

The board should therefore make clear how many options it wishes to consider, including the do-nothing option.

One approach to generating alternatives, if the capacity exists, is to have separate teams working on the same issue, with no crossover between them. Investigators use this one when dealing with witnesses, leaving no chance to get their stories aligned. Daniel Kahneman has supported this approach on several occasions,[[6]](#endnote-6)[[7]](#endnote-7)noting that separate teams can help to mitigate these biases by bringing different perspectives and approaches to the table. He also suggests separation of the process of generating ideas from the evaluation of them.

The board needs to make clear on what basis the proposals are to be evaluated. Without this clarity, management is basically working in the dark.

Let’s take the purchase of an existing event. Evaluation could include, for example:

* Impact on the relevant strategic outcome.
* Options to achieve the same outcome.
* Adherence to organisational values.
* Financial forward projections and assumptions.
* Risk assessment.
* Quality of supporting information.
* Trends in the event space.
* Capacity and capability to implement.
* Working in partnership with others.
* Any opportunity costs or potential downsides.

**What is required:** More than one approach including the consequences of doing nothing, analysis against the board’s pre-stated criteria, associated financial and risk analysis, how success will measured, and impact on the organisation.

Making the decision

Despite getting all the above right, boards can still make poor decisions. The role of the chair is vital in the process.

It is not always necessary to gain full consensus. As noted, before a major decision making moment arrives, considerable preparation will have been done making sure everyone has the information they require. If the decision is in a specialist area, someone other than the chair may be best placed to lead the discussion, with the chair coming in towards the end to bring the threads together.

This is of course where diversity of thought is required. Every director who wishes to contribute should have the chance to do so without any one person dominating the conversation. The debate should be tough on the ideas but not on the people presenting them. Side tracks, anecdotes, reiteration, hobby horse behaviour, and verbal meandering should be minimised.

The decision, if not by consensus, is by vote, and checked to ensure it meets the below criteria.

The decision:

* is legal;
* is consistent with board policy and strategic direction;
* is ethical;
* has been examined for potential risk; and
* is consistent with a director’s fiduciary duties and duty of care.

For a significant decision, the board minutes should record the decision, how it was reached (e.g. by vote or by consensus), and a brief summary of the key issues and points of view leading to the final decision (in other words, the pros and cons).

The chair should then check with the chief executive that the board’s direction to management on this matter is clear and the team has all the guidance they need to proceed.

A final note: It is not mandatory to decide on the day. In fact, we know that pauses in the process can lead to better decisions. If the board feels uncertainty or see gaps in the information, it is perfectly acceptable to delay, seek clarification, and further reflect.

Alfred P Sloan, long time president and chair of General Motors, offered this useful thought[[8]](#endnote-8):

*Gentlemen, I take it we are all in complete agreement on the decision here. Then I propose we postpone further discussion of this matter until our next meeting, to give ourselves time to develop disagreement and perhaps gain understanding of what the decision is all about.*

# Decision evaluation

It is useful to reflect on the decision process at the end of the meeting. Below is a simple checklist:

* Did we receive all the information we needed/requested?
* Was it well presented and organised in a manner that assisted the process?
* Did everyone who wanted to provide input into the discussion get an opportunity to do so?
* Have we missed anything?
* Are we clear around the success measures?

Ultimately, whatever matter was decided upon should have a positive impact on desired outcomes. How that contribution is to be assessed should be clear in the proposal itself and revisited on an agreed basis.

If projections and real world prove to be at variance, then reflection and learning follows: What happened, what did we miss, was something flawed in our thinking. Even if things go splendidly and far better than projected, it is worth trying to understand what factors contributed to the great result.

# Decision papers

Papers should reflect the points listed above, in particular what outcome is being advanced and how will success be measured with the analysis suggested.

There is a good discussion on decision papers [here](https://sportnz.org.nz/media/2392/discussion-paper-on-decision-making-incl-sample-board-paper-2.docx) and a guide to board papers in general [here](https://sportnz.org.nz/media/2397/board-paper-structure-1.doc).

# Avoiding bad decisions

One way to view the work of a board is that it makes a small number of big decisions that set the context for management to make hundreds, if not thousands, of small decisions. The board should therefore have some real discipline around the decisions it does make.

One interesting way to mitigate poor decisions is to employ the pre-mortem[[9]](#endnote-9) process. This involves assuming the proposal or project was implemented and went very wrong, and thinking back to what could have led to that negative outcome. It’s a useful, non-judgemental way to look for flaws in the thinking. Again, having more than one team run the process separately can be helpful.

# Setting a decision framework

Not all decisions are equal, and the four-level framework (outlined above) or something similar is helpful.

Remember that these decisions are matters ‘reserved to the board’ outside policy or beyond delegation levels. As far as possible, management should be empowered to make their own decisions.

Each board will want to vary this outline, but it is a good starting point. When in doubt, the chief executive should clarify with the chair what type of decision it is and hence the board’s expectations of management (and itself).

# APPENDIX: FRAMEWORK FOR BOARD DECISION MAKING AND EVALUATION

**Level One Housekeeping/routine**

A simple formal request is required with the reason for the request. Board assent will be within consent agenda items and the decision minuted.

Example: New signing authority

**Level Two Binary or simple confirmation**

Short paper and, if necessary, brief management presentation that notes what happens if the requested action is not approved. Limited debate and a simple vote. Decision minuted.

Example: Lease extension

**Level Three** **Multivariate and/or subjective**

The board, and the chair in particular, are involved in making clear:

* what information is needed to help the board make the decision
* what key criteria will be used to make an assessment, and any weighting given to those factors. They are likely to include:
  + fit to mission
  + alignment to values
  + forward financial projections
  + risk assessments
  + projected impact measurement

Information should outline:

* who was consulted
* assumptions made
* more than one option, including ‘do nothing’

A full decision paper and supporting presentation are required. Background reading will likely have been provided to directors.

Management’s presentation is intended to augment and add understanding to the information provided, not duplicate it.

This sort of decision will be the main item in a meeting, and full preparation and participation is expected. Decision is by consensus or vote. The minutes record the decision and the key points of the discussion leading to it.

The board will make clear the criteria assessing the decision and the timeframe.

Example: Purchase of an existing event.

**Level Four** **Fundamental or mission-critical decisions**

This largely follows the outline of level three decisions, but with more nuance, unknown factors, and risk. The decision is major, with significant consequences either way. There may not be full consensus. The board will work on this over a period of several meetings.

Expectations of management: Full decision papers, considerable background material, and third-party perspectives will likely be brought to the board. There will be collaboration between the chair and chief executive over a period of time.

Example: Cessation, disposal of long-standing section of the business, and pivot to new strategic approach.

# References

1. McKinsey Quarterly. The case for behavioural strategy. March 2020 [↑](#endnote-ref-1)
2. Estall, R. Purdy, G. Deciding. A guide to better decisions making. Sufficient Certainty Pty Ltd. 2020 [↑](#endnote-ref-2)
3. A grouping of agenda items that do not need discussion. Often approved as one item. [↑](#endnote-ref-3)
4. McKinsey & Company. (2010). Making great decisions. [↑](#endnote-ref-4)
5. Martin, R. (2015). The Strategic Leader's Road Map. Harvard Business Review, 93(6) [↑](#endnote-ref-5)
6. Kahneman, D., & Lovallo, D. (1993). Timid choices and bold forecasts: A cognitive perspective on risk taking. Management Science, 39(1 [↑](#endnote-ref-6)
7. Kahneman, D., & Klein, G. (2009). Conditions for intuitive expertise: A failure to disagree. American Psychologist, 64(6) [↑](#endnote-ref-7)
8. Cited in Drucker, P. F. (1954). The practice of management. Harper & Row. [↑](#endnote-ref-8)
9. See <https://hbr.org/2007/09/performing-a-project-premortem> [↑](#endnote-ref-9)