6.3

DECISION-MAKING: DISCUSSION, REACHING A DECISION AND VOTING

Basis for Board decisions

The decision-making process is sometimes said to be more important than the decision itself, because no one can know whether the right decision has been made until the outcome is known.

Boards should base their decisions on an analysis of the facts and pay attention to following a proper process.

Questions for each Board member to consider before a decision is adopted:

1. Is the Board the right body to take this decision; is it within its competence?
2. Do I, or does any other Board member, have or potentially have a conflict of interest? If so, see sub-chapter 5.3.4.
3. What is the problem to be resolved? What is the Board trying to achieve through this decision?
4. Is it in the best interests of the company? Is the proposed decision in line with the company's long-term vision and strategy? Am I acting fairly and honestly?
5. What are the possible alternatives, advantages and disadvantages of each?
6. What are the main factors to consider for each alternative?
    a. What are the costs and benefits of each alternative?
    b. Is a risk analysis provided? How could the risks be managed?
7. Do I have, and understand, all the necessary facts and information? What are the gaps? Are the assumptions reasonable, and should they be challenged?
8. Does the Board have sufficient expertise to take this decision, or does it need additional internal or external advice?
9. Why do I consider this the best decision, and on what grounds? Can I explain it? Is it reasonable in my objective opinion?
10. What communication is necessary about the decision?
11. How will the Board monitor the implementation of the decision?

Balancing stakeholder interests. Boards face complex decisions that benefit some stakeholders while disadvantaging others. Such choices should be made in the long-term interests of the company, and Board members need to be able to explain their decisions, including how the impact on affected stakeholders has been considered and what the company plans to do in mitigation.

The role of the Chair. The Chair guides the direction and priorities of the meeting, ensures that the Board has effective decision-making processes and that major proposals are sufficiently challenged, invites the opinion of each member and speaks last.

Quality of discussion. Boards do not usually carry out their own analyses but rely on the materials presented by management; the Board is, however, entitled to obtain the opinion of external experts or other competent third parties where the complexity of the matter requires it. The decision-making process focuses on asking challenging questions and helping management to develop alternatives. The Board must avoid the trap of groupthink, which arises when a Board falls into the habit of rubber-stamping decisions and avoiding diversity of thought, and the Chair in particular should keep the discussion away from excessive detail and micromanagement.

It is good practice to divide large strategic decisions into stages, so that the Board can give each stage detailed attention before moving to the next: for instance, discuss the concept of a project first, then challenge the assumptions on which it is based, then analyse the risks and the budget, and only then take the final go-ahead decision.

To get through a long agenda, not all decisions should be treated in the same way: strategic choices should receive enough time for debate, while reports need to be presented only where there are critical matters.

Voting. After the discussion, Board members state whether they are for or against the proposed decision. Decisions are adopted in accordance with the voting rules in the company's internal documents. It is good practice to organise the debate so as to reach unanimous decisions where possible: Boards act effectively when they speak with one voice outside the boardroom.

Assessment of the decision-making process. Once a significant decision has been taken, the Board may find it useful to review the effectiveness of the process immediately after the meeting and, where relevant, the merits of the decision itself. This can also be a topic in the Board evaluation questionnaire.

Traps that lead to poor decisions:

- a dominant personality or group of members on the Board, inhibiting contribution from others;
- insufficient diversity of perspective on the Board, which contributes to groupthink;

- a compliance mindset and failure to treat risk as part of decision-making;
- insufficient knowledge and ability to test underlying assumptions;
- failure to recognise the consequences of running the business on the basis of self-interest and other poor ethical standards;
- a lack of openness by management, a reluctance to involve non-executive members, or a tendency to bring matters to the Board for sign-off rather than debate;
- complacent or intransigent attitudes;
- inability to challenge effectively;
- inadequate information or analysis;
- poor quality papers;
- lack of time for debate, or truncated debate;
- undue focus on short-term horizons;
- insufficient notice.

KEY TAKEAWAYS

A. The quality of a decision depends on the quality of the process: an analysis of the facts, a proper procedure and a record that shows how the decision was reached.

B. Before deciding, each Board member should ask whether the Board is the right body, whether there is a conflict of interest, what problem is being solved, whether the decision is in the company's best interests and in line with strategy, what the alternatives, costs, benefits and risks are, whether the information and assumptions are sound, and how the decision will be communicated and monitored.

C. The Chair guides the discussion, ensures that major proposals are challenged, invites every member's opinion and speaks last; the Board relies on management's materials but may obtain independent expert advice, and must avoid groupthink and micromanagement.

D. Large strategic decisions are best taken in stages, from concept through assumptions, risks and budget to the final go-ahead, and not all agenda items deserve the same time.

E. Decisions are adopted under the voting rules in the company's internal documents, ideally by consensus, and the Board speaks with one voice outside the boardroom; the effectiveness of the process itself should be reviewed after significant decisions.

QUESTIONS FOR THE BOARD

1. *Before our last significant decision, did the Board consider the alternatives, the risks and the assumptions, or only the proposal put to it by management?*
2. *Does the Chair make sure that every member speaks before giving their own view, and are major proposals challenged rather than rubber-stamped?*
3. *When did the Board last obtain independent advice on a complex matter, and how did it decide that it was needed?*
4. *Are large strategic decisions taken in stages, and does the Board give strategic choices more time than routine reports?*
5. *Which of the traps that lead to poor decisions could apply to our Board, and how would we know?*