



CORPORATE GOVERNANCE

Coping with Cognitive Biases in the Boardroom

Bias	Description	Solutions	
		<i>Individual level</i>	<i>Board level</i>
Anchoring	Initial impressions, data, estimates anchor subsequent thoughts and judgments	<ul style="list-style-type: none"> - Be open-minded, view things from different perspectives - Think about a problem alone, before consulting others 	<ul style="list-style-type: none"> - Utilise the six-hats technique to consider different perspectives
Maintaining the status Quo	The more choices there are, the more people are likely to want to maintain the status quo	<ul style="list-style-type: none"> - Remind yourself of your objectives. Are they best served by the status quo? - Identify other options - Do not exaggerate the effort or cost involved in making a change 	<ul style="list-style-type: none"> - Seek external opinion to gain a viewpoint not bound to the status quo
Overconfidence	People tend to overestimate their abilities to consistently make good decisions and achieve deadlines, and the likelihood of success	<ul style="list-style-type: none"> - Be disciplined in judging probabilities - Investigate the extremes of a range of values 	<ul style="list-style-type: none"> - Seek alternative and/or external opinion on estimates
Sunk Costs	Making choices that justify previous decisions	<ul style="list-style-type: none"> - Be on the lookout for evidence of sunk cost biases in the recommendations of managers 	<ul style="list-style-type: none"> - Get advice from people who were not involved in the previous decision
Confirming Evidence	Seeking out or putting more weight on information that supports an initial opinion	<ul style="list-style-type: none"> - Do not surround yourself with "yes" men 	<ul style="list-style-type: none"> - Have a devil's advocate on the board - Use the six-hat technique to consider other perspectives
Framing	The way your information is presented	<ul style="list-style-type: none"> - Do not automatically accept the initial frame, whoever formulated it - Pose problems in a neutral way - When others recommend decisions, examine the way they framed the problem. Challenge them with different frames 	<ul style="list-style-type: none"> - Use the six-hats technique to look at the problem from different frames - Ensure management presents a proposal "warts and all"
Non-rational Escalation of Commitment	Continuing to commit resources despite all the evidence showing that the plan is not achieving its desired outcomes	<ul style="list-style-type: none"> - Regularly review your objectives - Constantly seek feedback on the decision from others - Regularly review costs and benefits of progressing with the decision 	<ul style="list-style-type: none"> - Implement decision check-points where commitment is re-evaluated - Use the six-hats technique to test commitment from different viewpoints
Groupthink	When group dynamics result in sub-optimal decision processes		<ul style="list-style-type: none"> - Use the six-hats technique to bring alternative viewpoints to the process - Use external advisers to test the group's processes and decisions



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Sample Board Meeting Agenda

[COMPANY NAME]
ABN [xxxxxxxxxxxxx]
BOARD MEETING AGENDA

Board Meeting Date: XXXX

Location: XXXX

Commencement Time: XXXX

	Estimated Time
1. In-camera Session	30 mins
2. Meeting Opening	
2.1 Apologies	
2.2 Director Conflict of Interest Disclosures	
2.3 Previous Minutes	30 mins
2.3.1 Confirmation	
2.3.2 Matters Arising/Action List	
3. Matters for Decision:	
3.1 Major strategy decisions (always have board paper and recommendations)	
3.2 Routine decisions including capital equipment approval and expenditure (discussed only if requested by a director)	60-120 minutes
4. Matters for Discussion	
4.1 CEO's Report	
4.1.1 Current Significant Issues	
4.1.2 Matters for Approval	
4.1.3 Update on Strategic Plan Implementation	
4.1.4 Major Key Performance Indicators	
4.1.5 Risk and Compliance Update	
4.1.6 Matters for Noting	
4.2 CFO's Report	60-120 minutes
4.3 Discussions concerning forthcoming strategic decisions	
4.4 Committee Minutes	
4.4.1 Audit	
4.4.2 Other	
4.5 Other matters for discussion	
4.6 Chairman's Update	
4.7 Presentation by management (if required)	
5. Matters for Noting [discussed only on exception basis]	
5.1 Major Correspondence	
5.2 Company Seal	
5.3 Updated board calendar	10 minutes
5.4 Other matters for noting	
6. Meeting Finalisation	
6.1 Review actions to be taken	
6.2 Meeting evaluation	10 minutes
6.3 Next meeting	
6.4 Meeting close	