

Indigenous Business Toolkit Project

Board Decision Items

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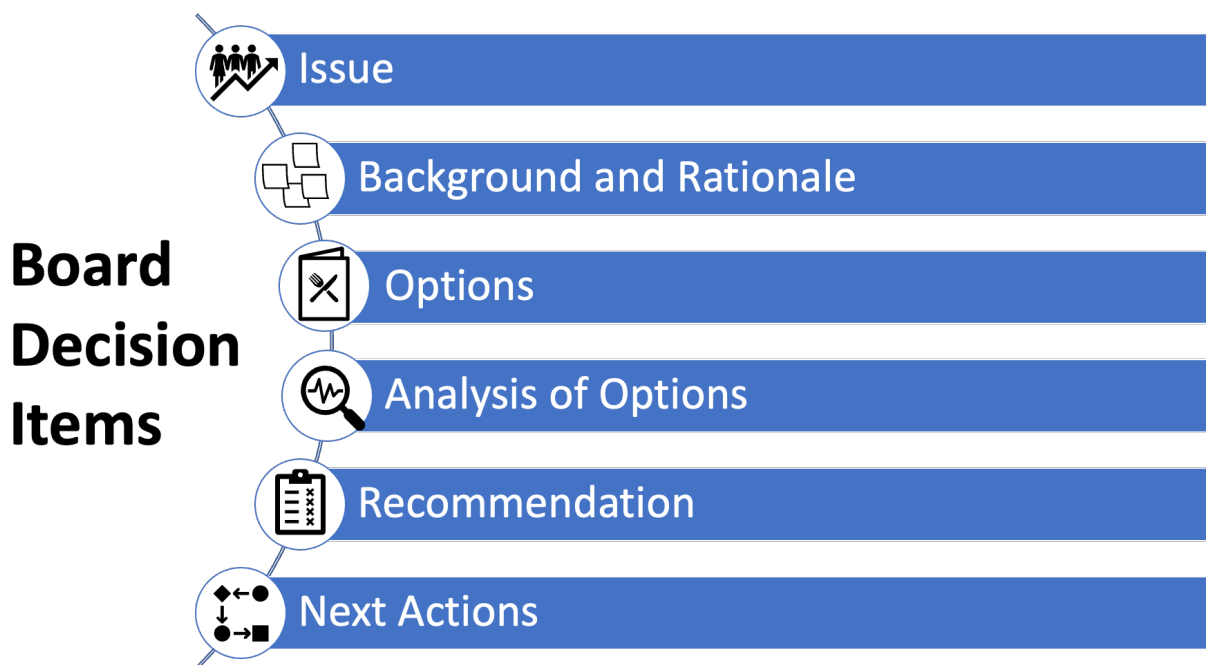
Board Decision Items

Summary

The board of directors of Indigenous businesses such as Economic Development Corporations (EDCs) makes key decisions for its organization. These decisions are typically based on recommendations provided by management. Given the complexity of many of the issues the board must consider, and the greater information possessed by management, it is important that the board be provided with the information it requires to make an informed and unbiased decision. This information must be provided in a manner that allows the board, in a timely fashion, to properly consider, debate, and weigh the issues under consideration.

The tool used to achieve these objectives is the board decision item (BDI). BDIs are used to ensure that the information provided to a board is complete and unbiased. As illustrated below, BDIs have six elements: Issue; Background and Rationale; Options, Analysis of Options; Recommendation; and Next Actions.

When BDIs are properly used, they provide the board with neither “too much” nor “too little” information; instead, the information provided is “just right.” Boards are not inundated with information that they don’t have time to digest and understand; at the same time, they are not rubber-stamping decisions or scrambling to find information. In addition, BDIs mean that management must actively defend their recommendations. In short, if a decision is the right one for a business, it should be able to withstand analysis and scrutiny. BDIs represent a way of structuring this scrutiny.



The Information Gap

One of the main roles of the board of directors of Indigenous businesses such as Economic Development Corporations (EDCs) is to make key decisions for its organization. These decisions fall into five main areas:

1. Human resources decisions around hiring the executive, executive compensation, and CEO and board succession,
2. Oversight of business operations,
3. Financial decisions around capital allocation, balance sheet management, and dividend policy,
4. Strategy decisions around the purchase and sale of assets or businesses, and
5. Governance decisions around corporate structure and decision rules.

Each of these areas can be very complex and it can be difficult for board members to understand fully the issues they face. In addition, the CEO of the business, who is typically the one presenting the information and requesting a decision, has a great deal more knowledge of an area than do the board members. The greater knowledge arises because the CEO has more time to spend on the issue and because the CEO can observe the issue “close up.” This knowledge difference is so ubiquitous that it is given a special name in the literature on governance – information asymmetry.

The presence of a knowledge gap between the CEO and the board, combined with limited time to discuss issues, means it is extremely important that the board be provided with the information it requires to make an informed decision and that the information be provided in a manner that allows the board, in a timely fashion, to properly consider, debate, and weigh the issues under consideration.

Bridging the Information Gap

While the board is responsible to make key decisions in the company, it is up to management to provide the board with the information to make these decisions. This information should be presented in the best way possible for the board to make well-informed and timely decisions.

It takes skill and practice by the CEO to provide the board with the information it needs. This task is complicated by the fact that board members come onto the board with unique backgrounds and skillsets. The CEO needs to put the board members, individually and collectively, in the best position possible so that these diverse skills can be put to their best advantage.

The challenge in preparing information for the board is to find the “Goldilocks” amount, type, and organization of information. It is easy to provide “too much” information that floods the board and confuses the issue at hand, or information that is not organized and/or not presented in a way that is relevant to the decisions that need to be made.

It is also easy to provide “too little” information with the result that the board does not have sufficient information to properly make decisions. This outcome can occur if management believes the board members know everything and who are we to tell them what to do. It can also occur if management believes that it is in charge and the board simply rubber stamps decisions. In both situations, the board is left without adequate information to make informed decisions.

What is the “just right” amount and type of information to provide? This is the challenge facing the CEO when preparing the information they provide to the board. It is also the challenge facing the board when it is setting expectations on the amount and type of information that it wishes management to provide.

One way of providing the “Goldilocks” amount and type of information is to follow a standardized procedure for the presentation of information. The use of **board decision items** (BDIs) is such a procedure. BDIs are used widely across all kinds of organizations from businesses to universities to non-profits.¹

Board Decision Items

The following are the components of a BDI:

- **Issue** – Identify the issue being addressed as clearly and succinctly as possible (e.g., no more than one or two sentences). Identifying the issue or problem in a plain and simple fashion is more complicated than it first appears. Take time to do it correctly.
- **Background and Rationale** – Provide enough background information on the issue so it is clear why it is important to the organization and why it requires resolution or a solution. Describe the cost(s) this issue is causing the organization and lay out the consequences of not solving or addressing the issue.
- **Options** – Identify three or four options for addressing the issue and briefly describe each of the options. Providing one or two options makes the choice very stark and may signal you have not given the issue sufficient consideration. Providing more than three or four options can be confusing and may leave the board with insufficient time and energy to consider other items on the agenda that are equally or more important. Make sure the options are sufficiently different, since doing so tends to highlight the elements that are important in the issue.
- **Analysis of Options** – Analyze the issues using a common set of criteria. The analysis should clearly identify the advantages and disadvantages of each of the options, as well as indicating which of the advantages and disadvantages are the most important (and why).
- **Recommendation** – Recommend one of the options and indicate why this option is being chosen. It is important that management make a recommendation and that the rationale for the decision is clearly explained. The CEO has been hired to operate the business and it is vital that the board allow the CEO to make a recommendation on how they think the business should be run, albeit a recommendation that must be justified to

the board. Although the board isn't obligated to accept the recommendation that is made, the recommendation serves as the starting point for decision-making.

- **Next Actions** – Once the decision is made by the board, identify the next actions that are required.

Using Board Decision Items

Board decision items should be included in the board kits and circulated in advance of the board meeting. At the board meeting, the board may ask management to walk them through the document. If all board members have studied the item carefully, they may be ready to dive into the discussion with a minimum of presentation.

The analysis and recommendation by management should not necessarily be seen as definitive or comprehensive. Board members were chosen to add value and bring their own perspectives. It is at this point that the board may question management or add their own comments or analysis. Indeed, one of the important things that should take place around a board table is a discussion of the problem from different perspectives and angles. One of the biggest problems a board faces is groupthink, where everyone falls into line with what one person says.

By creating the basis for discussion and debate, BDIs streamline and facilitate the board's decision-making process. Used correctly, BDI's mean that discussion at the board table is not restricted or biased in a way that is desirable to management. If a decision is the right one for the business, it should be able to withstand analysis and scrutiny. The duty of the board and management is to make the best decisions for the organization. BDIs are one of the ways to ensure this happens.

Conclusion

The purpose of BDIs is to assist the board and allow it to do its job better. BDIs allow management to demonstrate the work they have done, while at the same time creating a dynamic that allows the board to use its expertise and knowledge to make decisions that are best for the business. Using a structured and disciplined way of making decisions is better for the organization.

Endnotes

¹ The Investment Decision Process module deals with a similar topic, namely the use of Investment Decision Memos. These memos include similar qualitative content as board decision items but are focused on the financial projections dealing with a specific business opportunity.

Indigenous Business Toolkit Project

The Indigenous Business Toolkit Project is designed to provide Indigenous communities and individuals with the practical tools they and their advisors can use to undertake successful economic development. Indigenous economic development is more successful when everyone – community members, community leaders, consultants, business professionals, employees, and/or potential partners – understands its many aspects.

The Toolkit provides step-by-step instructions on selected aspects of economic development based on the best practices of leaders in the field. The modules in the Toolkit cover everything from the role of economic development in nation building, to the importance of business charters, to the various legal forms that can be used to pursue economic development, to the steps needed to identify and negotiate beneficial partnerships, to the governance challenges that economic development must address.

The modules are available for free and for use by anyone. The full set of Toolkit modules can be found at: <https://www.schoolofpublicpolicy.sk.ca/research-ideas/projects-and-labs/indigenous-leadership-governance-and-development-project.php>.

The Indigenous Business Toolkit Project is part of the larger Indigenous Leadership: Governance and Development project designed to support long-term Indigenous economic development. In addition to the toolkit, the larger project involves capturing the economic development experience of Saskatchewan Indigenous communities through a series of case studies. The case studies, along with a description of the larger project, can be found at the website listed above.

Disclaimer

The information contained in this document is designed to provide an overview of a particular topic and should not replace legal and other expert advice. Groups wishing to use the concepts discussed should receive the appropriate professional advice necessary to ensure their specific goals and circumstances are considered and recognized.

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