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Making effective decisions as a senior team: the Bank of England as a best practice example

The details of how the Monetary Policy Committee makes decisions is a rare public example of good group-based decision-making

Executive teams are tough to manage, and one of the most important activities is decision-making. Success requires a range of processes and behaviours which are not always easy for a team of highly successful, strong leaders. Good examples of how to do it well are rare - partly because successful decision-making is not as common as it should be, and partly because there are few chances to see behind the closed doors of such meetings.

Perhaps surprisingly, the working of the Bank of England Monetary Policy Committee is an excellent example.

Since the banking collapse, the role of the Bank of England, and some of its past decisions, has been debated by economists, historians and political pundits. Getting this right clearly matters to all of us. One thing most experts agree on is that the performance of the Monetary Policy Committee in setting interest rates has been very impressive. In 1997 the incoming government created a brand new, arms length, remit to make interest decisions driven by a very precise inflation target. This Bank of England committee was seen to get it right almost straight away. There have been some detailed accounts published that give an insight into how the decision-making works (for example, a speech by former Bank of England deputy governor Paul Tucker on Central Banking and Political Economy, and an article by Richard Lambert *Inside the MPC*).

The overall process

When looked at close-up, there is much to learn from how a small team of powerful, clever, strong-minded men and women, chaired by a powerful, clever, strong-minded leader, make effective decisions in a transparent and accountable way. In contrast, research by Bain, and by Marakon, show that on average:

- only 12% of executive team meetings consistently produce important decisions
- while 90% of high performing companies have effective decision-making processes, only 10% of the rest do.

The Monetary Policy Committee's process follows best practice closely, with three very clear, well-planned and deliberately separated stages which the whole group go through:

1. **Understanding the latest data:** getting to grips with a wide range of very up-to-date data, including mainstream numbers as well as opinion, with an open mind and a desire to understand
2. **Debating what the data means and what the options are:** open debate, with the freedom to challenge and disagree, but the desire to listen to others, deepens understanding. Having a clear range of three realistic options focuses attention on the relative merits of the choices. The committee deliberately does not jump to a decision until the issues have been debated
3. **Making a clear decision, communicating it and executing it:** having a clear decision process to ensure a conclusion is the start. Then there is discussion of the narrative that goes with it. It is essential that others understand why the decision has been made and what the team are expecting the consequences to be.

It might be tempting, for several reasons, to dismiss the Monetary Policy Committee interest rate decision process as too unusual an example to be followed:

- It is a unique decision, unlike any others in the public sector, and especially in the private sector. The Committee includes a range of outsiders chosen as well-known experts in their own right - so it is not, and does not have to be, a 'team'
- The range of options to be decided on – while strategically important - is fixed and small (interest rates up, down, or the same, plus (recently) the level of ‘quantitative easing’)
- It happens with a fixed monthly regularity that makes it worth creating a special process in its own right
- There is no true need for the committee itself to be accountable for execution, as they only announce the decision and it is not their task to follow through.

While these unique features may be true, the details of how the Monetary Policy Committee makes the decision are a remarkably useful model.

This process can be applied in different ways to improve or strengthen executive and board decisions on strategic issues, in whatever context.

THE DETAIL

A clear, understood and well-supported timetable

The MPC goes through its structured decision-making process in a precise and well-planned seven days every month. Everyone who joins the committee as a new member is taken through how it works, in advance, along with what is expected, what everyone's role is and what they will have to do to play their role.

What can be learnt from this: decisions made by a team are more likely to succeed where there is an explicit process that everyone understands and commits to. This includes how people have access to agreed sources of data, the timetable for what happens when, who the decision-makers are, what the governance rules and 'voting rights' are and how the team are accountable.

1. **Understanding the latest data**

   The first MPC meeting of the cycle is a half day session on the Friday, in which the Committee are presented with all the information relevant to the decision they are about to make. The information takes the form of a series of presentations by senior Bank staff, each covering a different aspect of the economic landscape, building up a broad picture of the key economic and financial developments over the previous month. This meeting also provides an opportunity for the Bank's 12 regional 'Agents' to report. These Agents each provide a summary of the latest economic trends as perceived by the 8,000 or so businesses around the country with which they keep in contact.

   There are four important points about this data:

   - It is timely - up to date, focused on what is changing (or not) and why. At the same time, no delays are allowed because there is a big new piece of data appearing a few weeks later. The idea is to make the best decision for the moment, and adjust later if new data suggests to
   - It looks at leading not just lagging indicators - the Bank of England have identified good leading ones
   - It looks at "soft" data as well as hard data - qualitative, 'finger on the pulse' feedback sits alongside precise financial figures
   - It is objective - while packaged and presented for the use of the MPC, these inputs come direct from the experts, whose job is to 'tell it like it is'. The data is not 'as interpreted by the Chair'.

   The MPC members then have several days to absorb and think about what the data means, before they meet again to discuss its implications and what should be done.

   What can be learnt from this: good decisions depend on good sources and types of data that have been chosen and agreed by the team in advance.

   They also depend on having time to absorb and think about the data before making decisions, having confidence in the data, and not putting the decision off because the picture being painted is inconclusive or might be clearer with even more data.

It is also important that there is a pause between absorbing the data and moving on to the next stage of debating the meaning and consequences.

(For more about the effective use of data in team decisions see our *Brief* on: *Smart metrics mean smart decisions: essential for speed, agility and resilience).*

2. **Debating what the data means and what the options are**

Having had several days to absorb the inputs, the Monetary Policy Committee then meets for half a day on the following Wednesday to discuss the implications and options. Everyone knows that at this stage they do not start proposing a final decision, solution or action. The key purpose is to ensure that the Committee as a whole gains the benefit of all of its members' insights, expertise and experience - encouraging a range of views to be expressed. Members are expected to speak their mind, and are also expected to listen to each other. Everyone is actively encouraged to consider the consequences of each of the different alternative actions (interest rate cuts, rises or not), regardless of their personal inclinations to one course. They then break for the evening, with the chance to reflect overnight on the discussion.

What can be learnt from this*:* good decisions depend on ensuring everyone, together, considers all practical options fully, and does not simply jump to conclusions. There are two key benefits to this. Firstly, it reduces 'groupthink', where a team who know each other well just make a quick assumption about what is expected of them, or what the obvious choice is. Secondly, it encourages the maximum chance of consensus, both around the final decision and why. While in this case the available options for the MPC may be obvious, there are very few key business and organisational decisions that cannot be focused around a small number of practical options.

It is a common problem for leadership teams to skip this open and robust debate, not allowing enough time for discussing options before moving to a close. Doing this only reduces the degree of mutual commitment to the outcome and accountability for its consequences. Key to doing it right is the safety to say what you feel, matched with active listening to other, different views. Most top teams do not have the option of 'sleeping on it overnight' with every decision. But if it is a matter of importance, a good agenda can usually be designed with breaks and lunches at the appropriate points for a 'pause'.

3. **Making a clear decision, communicating it and executing it**

The following day, meeting for the third time in a week, the Monetary Policy Committee makes the decision. The Governor begins the meeting by summarising the key points of the discussion the previous day. Each member is then invited in turn to summarise their own views, and they usually also give an indication of their preference for the decision. The

Governor then puts forward a motion and calls for a vote. These decisions are of course made public, along with the detail of who voted for what.

The final activity is to discuss the headline commentary on the decision, so that this can be communicated. The actual decision itself is then made public immediately.

What can be learnt from this*:* clear governance rules on the decision process reduce purposeless friction. Is it a majority vote, does it require consensus, or is it a series of inputs for a final decision by the chair of the meeting? Whatever the rules, they need to be clear and consistently applied.

Developing and rehearsing the narrative is an essential part of a decision that carries the commitment of the team, as well as maximising the support of wider stakeholders who are affected by, or have an interest in, the decision. Crisp, clear and fast communication of the decision also makes a big difference.

What is missing from the Monetary Policy Committee process as a model for others?

A plan for implementation

In most cases, the board and executive leadership teams have a responsibility for delivery that goes well beyond the announcement of the decision. Whole operational teams will usually have to be engaged in executing it. In large and complex organisations (whether major Whitehall department or multinational company) this execution will be fraught with opportunities for failed, altered or diluted implementation.

So in most leadership decisions, the final stage of a decision is agreement around an implementation plan, with clear accountabilities for its delivery. Usually, this will include regular report-backs to the team on progress over following months, against agreed milestones and success criteria.

While the Monetary Policy Committee itself is held very clearly accountable for meeting ultimate agreed success criteria (agreed levels of inflation), they are not managing the banking, financial infrastructure and other related processes that come between the initial decision and its outcome (although other parts of the Bank of England do have responsibilities in this area).

Other important factors and lessons from the Monetary Policy Committee process

- ***The make-up of the team***: the MPC is a deliberate balance of outsiders and insiders, designed to ensure a range of opinions are heard. A team of 'yes men' could go through the same process and end up with a less successful outcome
- ***The commitment of the team leader to the process***: the process is wholly owned and supported by the Governor (as chair), who guards its integrity and effectiveness unwaveringly.

This does not mean zero flexibility to meet real changes in the context and external events. It does mean understanding why this works and what the spirit and the letter of the process requires. It also means resisting the temptation to simply force his or her way through

- ***The right balance between data and judgement***: starting with the right data is correct. But there is no absolute science in making the decision and in the end, judgement is needed. This process allows leaders to be leaders, but gives them the best chance to make the right decisions.

Conclusion

Most top teams have poor decision-making processes. Getting it right is a key driver of pace, delivery and overall performance.

Even in a range of very different business and organisational situations, most of the best practice shown by the Monetary Policy Committee of the Bank of England can be adopted by private and public sector organisations.

This is an excellent, live, example of a strong decision-making structure, with three clear and distinct phases. While the MPC go through these phases over seven days, similar stages could be made by other organisations in just a couple of days, or a single day.

This works in a context of a tough group of independently minded members who are not naturally a team. In fact most executive teams are notoriously non-team like. Despite this challenge, this process has created an atmosphere of common purpose - where a combination of collegiality and challenge lead to an effective outcome.

It is worth noting that in all the debate and commentary on how to improve financial regulation and infrastructure - including the significant changes in remit and goals for the Bank of England overall - no-one has suggested that this process for deciding interest rates should be altered.

(For our other *Briefs* on leadership team decision-making see: *Time alone and time together: getting the team to make decisions*; and *Decision-making – how to avoid your leadership team acting like teenagers*.)

Sources

Sources used for this article include: Blenko, Mankins, Rogers: *Decide and Deliver* (Bain); Lambert: *Inside the MPC* (Bank of England Quarterly Bulletin); Tucker: *Central Banking and Political Economy* (Bank of England speech); *Better decisions, faster: Techniques for exploiting top management time* (Marakon);

