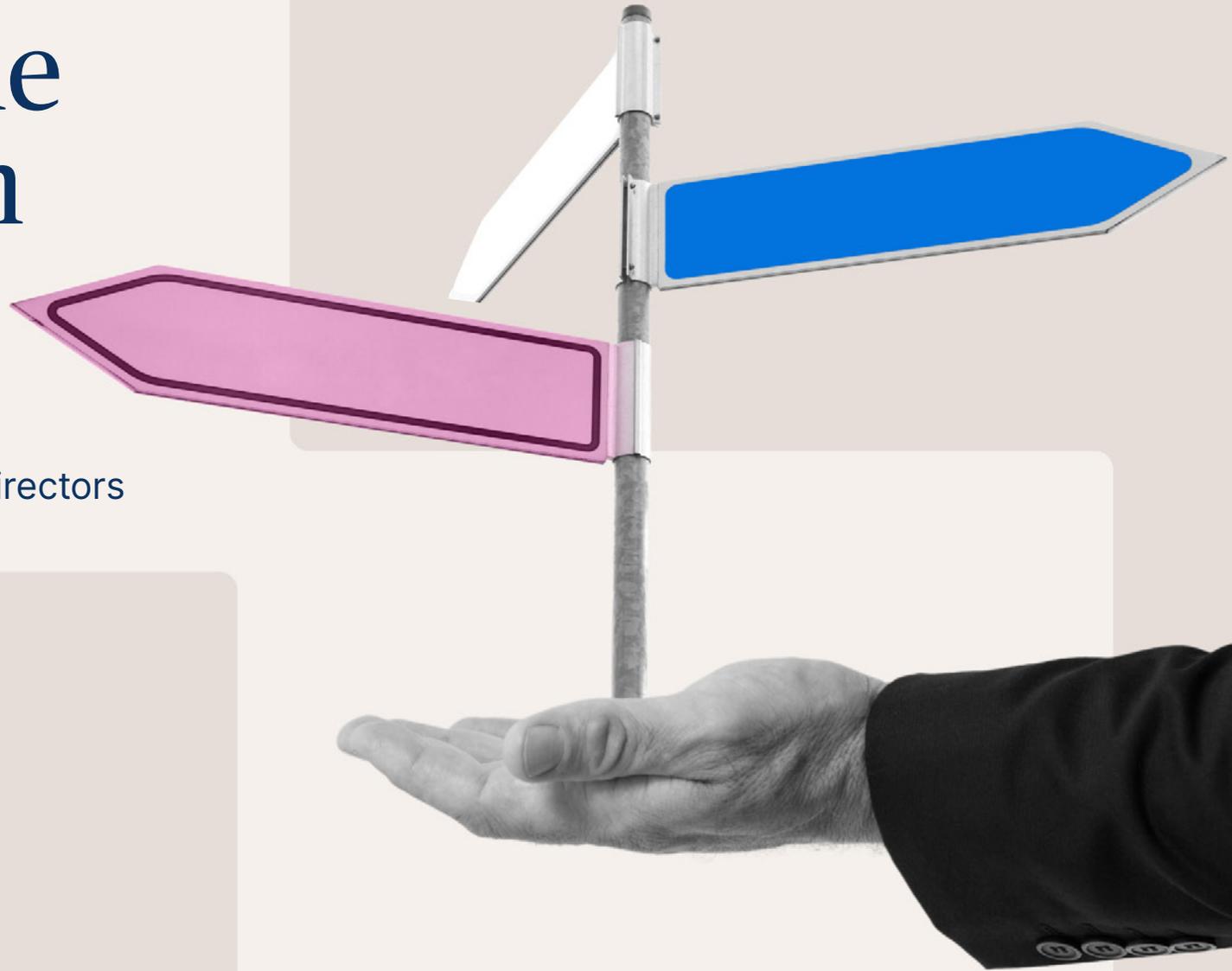


Ethics in the Boardroom

2nd Edition

A decision-making guide for directors



A joint publication

Australian
Institute of
**Company
Directors**



**THE
ETHICS
CENTRE**

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Foreword

At the heart of effective governance and meeting directors' duties lies a commitment to ethical decision-making. It is this commitment that enables organisations to remain true to their purpose, create sustainable value and retain the trust of the communities they serve. In an environment defined by rapid technological change, heightened public scrutiny and increasingly complex stakeholder expectations, the work of boards has never been more challenging – or more important.

As this updated *Ethics in the Boardroom* by The Ethics Centre and the Australian Institute of Company Directors illustrates, boards that intentionally integrate ethical reasoning into their processes are better equipped to navigate ambiguity, anticipate consequences, and make decisions aligned with the organisation's best interests.

Ethical considerations are not an abstract overlay on the work of boards; they are intrinsic to sound judgement and the best interests of an organisation. Every strategic choice, trade-off, and response to emerging risks carries an ethical dimension, whether explicitly acknowledged or not. The question is therefore not whether ethics informs board deliberations, but how consciously and consistently directors engage with it.

Increasingly, investors, customers, employees and the wider community recognise that sustainable organisational performance depends on ethical conduct, strong culture and responsible stewardship. Ethical lapses destroy value; ethical leadership builds it. Boards that grapple openly with competing interests, question assumptions, and consider the perspectives of those affected by their decisions are better stewards of financial, human and reputational capital.

As always, the directors' touchstone must be the interests of the company. But how are those interests to be defined? And on what basis are directors to exercise their discretion? Are they to draw on a personal set of values and principles? Are they to attend to the standards of the communities within which they work? Is there a framework of 'absolutes' that transcend all other considerations?

The answer is that directors are bound to apply the values, principles and purpose of the organisation. However, unlike others, directors have the capacity to define and amend an organisation's ethics framework. Indeed, the board is, in effect, the organisation's mind and conscience. All that an organisation does and its effects on the world, is ultimately traced back to directors and their deliberations. Thus, the heavy ethical burden carried by directors.

Ethics in the Boardroom supports directors with this burden and brings ethical clarity to their role. Not by prescribing answers, but by equipping boards with practical tools for thoughtful, values-aligned decision-making. Ethical governance is not a destination but an ongoing practice, refined through reflection, courage and collective commitment.

Ultimately, the quality of our decisions as directors, shapes not only our organisations, but the trust Australians place in them. This guide is offered as a resource to strengthen that trust and supports Australian boards in leading with integrity and purpose.

Mark Rigotti GAICD
Managing Director & CEO
Australian Institute of
Company Directors (AICD)

Dr Simon Longstaff AO
Executive Director
The Ethics Centre

Executive summary

Introduction

Australian boards face high expectations of ethical conduct and practice from internal and external stakeholders, including employees, customers, shareholders, members, the media and government.

This resource has been updated from the first edition published in 2019. The AICD and The Ethics Centre revised the guidance to reflect evolutions in ethical approaches in the boardroom, particularly how boards are grappling with rapid technological advances.

It aims to support directors as they navigate the complex ethical terrain encountered in every boardroom. This guide does not attempt to prescribe a set of rules for good conduct. Instead, it aims to complement and inform the sound judgement that directors bring to their deliberations.

The focus is the boardroom as the ultimate source of the ethical tone that flows throughout a well-governed organisation. This guide can be used:

- as a general resource for directors;
- to identify specific areas for strengthening a board's capacity in relation to ethics; and
- to inform conversations about the ethical dimension of complex issues encountered by individual directors or the board as a whole.

The guide introduces the four lenses model to help surface ethical dimensions embedded in board decisions. It also outlines a five-phase decision-making framework to support rigorous and defensible evaluation of options.

The insights that are presented in this document are informed by interviews and roundtable discussions with experienced directors and subject matter experts.

What is 'ethics'?

Ethics is the branch of knowledge and practice that seeks to answer the practical question 'What ought one do?' This question applies to both individuals and organisations. Ethics are expressed in the choices we make and actions we take – as informed by the values and principles we hold and the purposes we serve – as individuals, organisations, communities and societies.

Ethical issues vary in scope. Some relate to organisational matters, such as conflicts of interest. Others are of broad societal concern, such as how to respond to climate change.

Why do ethics matter to board decision-making?

Ethics matter in board decision-making, as it is central to protecting and building long-term value for an organisation. Ethical decision-making promotes a sustainable competitive advantage by attracting talent, maintaining customer loyalty, securing investor confidence, and preserving the social license to operate. In contrast, ethical lapses can damage trust with stakeholders, impact reputation, invite legal and regulatory consequences, and can, in some cases, destroy companies.

Applying the four lenses model

Ethical issues do not necessarily come flagged as such. For example, there can be an ethical dimension to issues of capital allocation, new product approvals, or the development of key strategic partnerships.

To reveal the range of ethical issues that may be embedded in what appear to be business-as-usual decisions coming before a board, this guide invites directors to apply four different lenses.

Doing so enables boards to make more intentional decisions, taking into account the relevant ethical dimensions.

Each lens forms a chapter of this publication.

Lens



[Lens 1: General influences](#)



[Lens 2: The board's collective culture and character](#)



[Lens 3: Interpersonal relationships and reasoning](#)



[Lens 4: The individual director](#)

Summary

The broadest lens focuses the board on issues that affect the organisation as a participant in society (e.g. modern slavery risks in supply chains, climate change, and AI's impact on current and future workforces).

The culture and character of the board should reflect the purpose, values and principles (the ethics framework) of the organisation.

Every director brings an individual decision-making 'style' to the board table based on different modes of reasoning. Relationships between board members also affect decisions. The chair has a principal role leading the board to a collective decision.

The narrowest lens recognises that each person is an ethical actor. Awareness of our own motivations, biases and ethical reasoning styles can help each of us understand what we bring to the board table when it comes to ethical decision-making.

Key questions for boards and directors to ask

1. Do we have a strong understanding of the organisation's ethics framework?
2. What aspects of the strategic environment are relevant to our decision-making?
3. Which stakeholder interests should we take into account? What are their interests? To what extent are those interests aligned with the organisation?

1. Does the board, as a whole, have a culture that enables and supports ethical considerations, including calling on and applying the organisation's ethics framework?
2. To what extent is the decision before the board clearly linked to the organisation's purpose, values and principles?
3. What impact will the board's decision have on the culture of the organisation?

1. Have you considered how group dynamics impact board discussions, including how your own default decision-making style fits in?
2. Is there a comfortable drift towards agreement? Or is there an active effort to promote, recognise and encourage differences of perspective?
3. Are the opinions of some directors too easily dismissed because they are not subject matter experts?

1. Do my personal values and principles align with those of the organisation?
2. Do I understand my own motivations and biases?
3. Do I recognise my own preferred style of decision-making? Am I open to different approaches?

An ethical decision-making framework

To assist directors with responding to issues raised by the four lenses model, The Ethics Centre has developed a decision-making framework that is based on five phases.

Phase	Purpose
Frame	To define and understand the precise nature of the issue to be decided.
Shape	To develop options that could resolve the issue. Some of these options will have been developed by management, others may be suggested by directors.
Evaluate	To apply a matrix of values and principles to evaluate the options.
Refine	To identify and eliminate weaknesses in the proposed course of action.
Act	To give effect to the decision. All ethical decision-making is practical – it ultimately requires that a decision be given effect.

The five phases framework offers a simple basis for addressing the ethical dimension of any decision. It also highlights the importance of considering a diverse range of views and the interests of impacted stakeholders as critical to board decision-making.

While it is not a substitute for judgement, rigorous application of a decision-making framework increases the likelihood that that decisions made in the boardroom are ethically defensible – even if they are controversial in the eyes of certain stakeholders.

This framework is further detailed in the chapter: [A decision-making framework for responding to ethical issues](#).

Additional AICD resources

[Governing organisational culture](#)

The AICD's practical tool to help shape the board's approach to culture.

[Elevating stakeholder voices](#)

A practical guide to help boards understand the interests and concerns of their stakeholders.

The Ethics Centre resources

Ethic-call

For directors seeking assistance with a specific ethical dilemma, The Ethics Centre offers the Ethic-call service.

Ethic-call is a free, independent, confidential, national helpline available to all. It provides expert and impartial guidance in relation to ethical issues. To book a call, [visit the website](#).

The Ethics Centre's corporate program

The [Ethics Alliance](#) unlocks access to the sophisticated decision-making tool FieldKit.

Understanding ethics in a governance context

Ethics is ultimately about the choices we make and their effect on the world. It enables and supports thoughtful decision-making that is consciously informed by core values and principles.

Some modes of ethical decision-making involve the application of 'absolutes' (e.g. turning a blind eye to corruption is always wrong). Others recognise that the hardest decisions arise in the 'grey zone' where values and principles of equal weight and merit can and do compete. In some cases, the 'least bad' option might be the best. It is also often the case that there is no objective right or wrong answer to ethical questions, and different individuals, and boards, could readily reach different answers to the same questions.

The frequent lack of clarity in ethics is not due to any fault of decision-makers. Given this, we cannot expect ethical perfection from any person, or board. The most we can ask for is sincerity and skill in decision-making.

Values and principles shape all decision-making – even when one is not conscious of the work these values and principles are doing.

The distinction between ethics and morals

Morals are beliefs about right and wrong that individuals hold, often shaped by upbringing, religion, culture, and personal experiences. They are internal, subjective and often applied as a matter of habit. They can include systems of principles or codes that guide behaviour within a particular context.

Ethics shares many of the features of morality but is distinguished by the requirement to engage in reflective practice. This means conscious decision-making in which an explicit framework of values and principles is given practical effect.

Directors may be inclined to bring their personal morals – their values and sense of right and wrong – to the boardroom. However, as directors, they are required to give practical effect to the core values and principles of the corporation, whose interests they serve, within a formal context of directors' duties, governance laws and norms, industry standards, and legal frameworks. In the boardroom, there will be overlap between the morals of individual directors and the ethical principles or framework of the role of the director, board and organisation.

The Ethics Centre guide [Ethics Explainer: Ethics, morality & law](#) goes into more detail on the distinction between morality and ethics.

Best interests duty in practice

In 2022 the AICD published a new practice statement on the best interests duty, supported by a legal opinion prepared by Bret Walker AO SC and Gerald Ng MAICD.

The [opinion and accompanying statement](#) seek to clarify the best interests duty in the context of broader community expectations regarding the extent to which stakeholders can be factored into board decision-making.

This is a key consideration for a board in adopting an ethical approach to decision-making.

Key guidance from the statement includes:

- Directors have a duty to act in good faith and the best interests of the corporation.
- Directors have considerable discretion to identify the best interests of the company.
- While shareholder/members' interests are central, directors can, and should, also consider a range of stakeholder interests – doing so is often necessary to protect an organisation's reputation and ensure its sustainability.
- Directors should take a long-term view of where the company's interests lie.

Ethics and the role of the board

Ethics informs and underpins all board processes and interactions between directors. Indeed, it can be argued that there are no aspects of directorship that can (or should) exclude a consideration of ethics.

Further, an ethical approach is consistent with Australian directors' duties. For instance, the duty of care requires diligence, informed decision-making, and acting in good faith – all rooted in ethical responsibility. Further, the best interests of the organisation are paramount, demanding that directors put the organisation's interests ahead of personal gain or the interests of other parties.

Directors' duties under the *Corporations Act 2001* (Cth) and other legislative standards are not solely legal requirements. They are ethical commitments to act as trustworthy stewards of the organisation's resources and interests.

The importance of ethics in the boardroom

Ethics matters in board decision-making for several interconnected reasons.

- Trust is the foundation of business: Organisations operate within networks of trust – with customers, employees, investors, suppliers, and regulators. Unethical decisions erode this trust, and once lost, it is extraordinarily difficult to rebuild. Trust affects everything from customer loyalty to the ability to attract talent and access capital.
- Long-term value creation: Ethical decision-making protects and builds sustainable value. In contrast, ethical lapses often produce short-term gains

followed by devastating long-term consequences. Think of corporate scandals that caused massive value destruction through fines, litigation, and lost business.

- Legal and regulatory consequences: Many ethical principles find expression in the law. Boards that ignore ethics face regulatory scrutiny, shareholder lawsuits, and potential personal liability for directors. Beyond eroding trust, unethical conduct invites increased regulatory scrutiny and burden.
- Reputation as a strategic asset: In an interconnected world of instant information flow, reputational damage spreads quickly. An organisation's reputation affects its ability to operate, enter markets, form partnerships, and maintain its social license. Ethical board decisions protect this intangible but crucial asset.
- Employee engagement and culture: People want to work for organisations they are proud of. Unethical leadership creates cynicism, disengagement, and turnover of top talent. Conversely, ethical decision-making attracts and retains people who bring their best selves to work.
- Practical effectiveness: Ethical clarity simplifies decision-making. When boards have clear values and practical frameworks for applying them, they have a framework for navigating complexity and ambiguity.

The importance of the board accounting for ethical considerations was reinforced in the 2026 Federal Court judgment in the *ASIC v Bekier* (Star Entertainment)

directors and officers case where Justice Michael Lee reflected on the degree to which the board understood the ethical conduct of the company.

By openly addressing ethical issues, boards can broaden their thinking and reinforce their unity in a process of open exploration and conversation.

Example 1: Conflict of interest

A long-standing supplier contract is up for renewal for the first time in your tenure as a director on this board. The board has been asked to renew this large supplier contract without going out to tender. You are aware that the CEO of the supplier organisation has long standing personal ties to the chair of the board you sit on. You know the chair to be a person of integrity and the supplier to have fulfilled all previous obligations. You don't want to create a storm in a teacup, but you are uncomfortable with this conflict of interest.

Example 2: Remuneration framework

Your organisation is looking to reduce expenditure. The board is presented with amendments to the remuneration policy that will generate savings. The current bonus policy means employees who meet moderate targets, as well as values and behaviour standards, are rewarded. The proposed policy requires employees solely to meet higher targets and has no values or behaviour requirements. You are concerned about how this will affect the culture of your organisation.



Why is talking about ethics challenging?

Given the inescapable influence of ethics in the boardroom, why do people find it so difficult to talk about this aspect of decision-making?

One reason is that some may be unable to imagine any standard other than a legal standard as having relevance; that is, 'if it's not illegal, it's not wrong' or 'the lawyers have signed off'. However, there are also other factors that make the explicit discussion of ethics a challenge for some directors.

- The term may evoke anxiety about being judged as a morally good or bad person.
- Some people may feel that ethics is 'self-evident' and that people are either ethical or they are not.
- Some might feel that ethics is entirely subjective – just a matter of opinion and a poor substitute for legal or economic analysis.
- The term may evoke suspicion that it is being used as 'window dressing' to hide questionable conduct.
- Ethics is a double-edged sword – once invoked it can be turned against you.

Taken individually or in combination, these reasons can incline directors to keep the ethics 'genie' in its 'bottle'. Yet the ethical dimension is always at work. It requires directors to go beyond mere intuitions about 'right' and 'wrong' and often ask 'it's legal but is it right?'

Further, it requires directors to offer and demand good reasons – to challenge and be challenged.

Justice Michael Lee in the *ASIC v Bekier (Star Entertainment directors and officers case, 2026)* commented in his judgment on the need for the board to actively press management with 'difficult questions' including on the ethical conduct of the organisation.

Ethical challenges identified by directors

In discussions with directors, we have identified three issues and challenges that often or necessarily involve ethics.

Ethical issues relating to people, relationships and perspectives

Ethics may arise in matters concerning the personal abilities, capacities, knowledge, dedication and interests of board members or employees. It may also arise in relation to relationships, including interpersonal relationships, disagreements and friendships. This may be a particular issue for boards where there is founder on the board or a dominant CEO.

Ethical issues relating to business practices and decisions

Ethics can arise with regards to how an organisation conducts its operations. This can cover business strategy, pricing, workplace culture, customer and supplier practices and stakeholder relationships.

It can also include the design of systems and processes such as technology and information systems, employment policies (including diversity, discrimination, and work health and safety), and remuneration and incentive arrangements for staff and board members.

Ethics may also be involved in strategic decisions such as workforce structuring and planning, risk appetite, tax strategies and investment decisions.

Ethical issues relating to an organisation's place in society

Ethical issues may arise outside the operations of an organisation. Such issues may impact stakeholder trust, organisational reputation, and an organisation's social compact (i.e. that which mutually binds individuals, communities and organisations in the pursuit of a common good). There may be an opportunity (or pressure) to publicly state an opinion on a social or political issue. It may concern industry and supply chain integrity, human rights or environmental sustainability. This issue is presented in greater detail in [Example 5](#).

Example 3: Internal business strategy

A new tax strategy has been presented to the board and opinions are mixed. The strategy is undoubtedly aggressive and would lessen the tax liability of the organisation. Your organisation's lawyers have stated that, while it may be challenged in the courts, you would likely win any litigation pursued by the Australian Tax Office. You are unsure about the strategy due to the potential risk of litigation costs and reputational damage. This also sits uncomfortably with you from an ethical perspective because of your belief that company tax is an important contribution to society.

Example 4: Modern slavery in an organisation's supply chain

As part of Australia's modern slavery legislation, your organisation has been mapping its supply chains internationally to identify modern slavery risks. The management team has identified a risk that forced labour is practiced in some factories that supply your operations. Your legal obligation is to detail the actions the entity has taken to assess and address modern slavery risks.

The board is discussing what additional actions should be taken to assess and remediate any issues identified, including monetary and personnel allocations. Some board members are arguing for a minimalist approach that meets your compliance obligations and saves resources. Others are arguing for a greater commitment.

Lens 1: General influences

Every organisation, no matter how small or large, has an impact on the world through its decisions and actions. As such, it is important for directors to recognise that organisations are ethical actors that cannot be divorced from the broader trends and norms of the wider societies in which they operate.

Two fundamental general influences on the board are the organisation's ethics framework and the broader strategic environment in which the organisation operates.

An organisation's ethics framework

An organisation's ethics framework is, at its most fundamental, a selection of core values and principles. These may be expressed in associated charters, codes of conduct and guidelines that define how the organisation and its people should conduct themselves and make decisions. Taken as a whole, the framework supports navigating ethical dilemmas and helps with decisions and operations aligning with the organisation's purpose, core values and principles. Ultimately, it is the 'index for judgement' and takes precedence over the personal morality of any director serving on the board.

At most organisations, the framework is not documented and does not necessarily need to be. What is critical is that the board and senior management have a strong grasp on the guiding principles and values of the organisation and how this is reflected in decision-making.

A strong ethics framework can provide a board with the basis for defining the organisation's place in the world – as a matter of choice rather than in conformance with the wishes of others (whether they be shareholders, employees, governments or community activists).

Utilising an organisation's ethics framework is discussed in greater detail in [Lens 2](#).

The strategic environment

Broader shifts in society and changing external factors often have profound ethical implications for organisations.

External factors impacting an organisation can include the transformative effects of new technologies, shifts in the geopolitical environment, alterations in the natural environment, changes in community standards and expectations, and new regulation and compliance obligations. For example, will artificial intelligence (AI) significantly reduce the need to employ human beings? If so, how will the transition be given effect? Will the transition be just and orderly, or unfair and chaotic? Is this a matter that an organisation can decide for itself, or is it bound to engage in public advocacy to shape public policy in a supportive direction? Is 'doing the right thing' by employees compatible with the economic sustainability of the enterprise?

It is important for directors to identify the ethical dimensions of the strategic environment and their relevance to the decisions that come before the board.

Seek broader frames of reference

There is value in seeking out information beyond the board papers to gain further insights about your organisation and the ethical implications of its strategic environment.

A board is only as good as the information it scrutinises.

- Link facts and decisions to an organisation's ethics framework. Management may be affected by the very human tendency to present information that supports its recommendations. As such, there is a risk that selection bias will shape the way in which critical facts are presented. Directors can temper this tendency by requiring that board papers link the selection of facts, in support of a recommendation, to the purpose, values and principles of the organisation. Directors can then identify and test underlying assumptions.
- Know your organisation from different angles. It is important to identify patterns in past decision-making. Is there a default way of resolving tensions, making trade-offs and relieving pressure points? Is there a risk that the board will fall into comfortable practices and not seek challenging and different perspectives?
- Engage with internal and external stakeholders. It is important that the board identify, where possible, all those with a legitimate interest in a matter that is before it. A board may need to seek out views beyond those readily available in the form of shareholders and other powerful stakeholders. It is surprising how often a voice from the margins can present a perspective that unlocks a solution to an apparently intractable problem.

Example 5: When organisations take a stance on a social issue

In recent years, some Australian organisations have taken public positions on significant social issues, for example the same-sex marriage plebiscite and the Voice Referendum. Directors have reflected that these positions were informed by ethical considerations. Considerations about whether a public position was appropriate included:

- The views of, and impacts on, employees and customers and broader stakeholders. Does it matter whether the majority of staff and customers agree with the stance? Is there a need to be representative?
- Given organisations have a different perspective from civil society and government, is there a duty to bring that perspective to the table?
- Is it possible to separate the personal views and interests of board members from the stance taken by the organisation? When is this 'pushing one's own barrow'? Is that a conflict of interest? Or is it legitimately bringing values and leadership to the table?
- Is there a line demarcating issues that organisations should take a view on? For example, is advocating for tax reform acceptable, whereas taking a stand on certain social or political issues is not?
- What link to the business operations and the best interests of the organisation should be demonstrated before the organisation can engage on issues of public interest?

In June 2023 the AICD published [Social Issues & the Board: Voice to Parliament](#). While developed in the context of the Voice Referendum, the guidance provides general considerations for boards considering taking a position on a social issue, including establishing a decision-making framework to consider such issues.

Strive for organisational ethics leadership

Every organisation, no matter how small or large, has an impact on the world and shapes the present and the future.

- A board is cognisant of broader societal interests and expectations. It is important for directors to recognise that organisations are ethical actors that cannot be divorced from the norms of the wider societies in which they operate. Boards and organisations that act and make decisions with indifference to the interests and expectations of society ultimately face significant reputational and regulatory risks.
- A board has a collective view of what ethical leadership looks like, having regard to the organisation's ethics framework and the best interests of the organisation. A strong ethics framework can provide a board with the basis for defining the organisation's place in the world – as a matter of choice rather than in conformance with the wishes of others (whether they be shareholders, employees, governments or community advocates).

Key questions for boards

- Do we have a strong understanding of the organisation's ethics framework?
- What aspects of the strategic environment are relevant to our decision-making?
- Are there factors that lie beyond the scope of the board papers? What is the connection between this choice and the long-term prospects of the organisation?
- Which stakeholder interests should we take into account? What are their interests? To what extent are those interests aligned with the organisation?
- How do we wish to position the organisation? As a leader? As a close follower? Doing the minimum required by law or regulation?



Lens 2: The board's collective culture and character

Every organisation and board is unique. Foremost, the culture and character of the board should reflect the purpose and values of the organisation.

Awareness of the character traits of the board itself will also better place directors to spot and challenge potential ethical blind spots. However, other dynamics (e.g. shareholder composition or membership and history) and structures (e.g. for-profit or not-for-profit organisation) also play a role. All these factors give rise to particular ethical challenges.

Reflecting on the organisation's ethics framework

Reflecting on the organisation's ethics framework (discussed in [Lens 1](#)) can be a useful starting point for ethical decision-making. Steps could include:

- Consider establishing a formal protocol for assessing decisions against the organisation's ethics framework. Boards can encourage management to address the ethical dimension of decisions in board papers, where appropriate. For example, the highly influential CBA Prudential Inquiry in 2018 utilised the 'can we/should we' heuristic as a guiding principle for how to assess organisational decision-making and conduct.
- Cultivate the capacity to look at decisions through the lens of organisational culture and not just outcomes. It is important for boards to identify what signals might be sent by the policies they adopt. For example, if a company claims to value trust but puts in place a compliance program based on intensive employee surveillance, employees may conclude that trust is not truly a core value.
- Frame decisions – and the reasons behind them – in ethical terms. There is no single, uniform 'language of ethics' used by all people. Some people judge the ethics of a course of action according to the outcomes it produces. Some look at whether or not certain duties have been fulfilled. Others are deeply concerned about the way in which decisions leave an indelible mark on the character of the organisation. The board should seek to convey decisions in the appropriate ethical language relevant to different groups of stakeholders.

“

I always try and ask at the end of the meeting: Have we approached this from a 'should we', not a 'can we' perspective? And is there anything on any director's mind that you've left unsaid but would be useful to hear?"

Senior director

Consider the character traits of the board

Boards have differing histories, dynamics and driving forces which affect their character traits. The character of the board affects the way directors raise, discuss and resolve issues.

Understanding the character of the board can help you understand patterns of behaviour that both positively and negatively shape board decisions. Once you understand this, you will be better placed to challenge potential ethical traps or 'blind spots'. Ethical traps arise out of being conditioned by experience to see the world in a particular way. For example, an experienced lawyer runs the risk of seeing all issues in exclusively legal terms. Of course, this risk is not always realised. However, the best protection against conditioned blindness (a type of group think) is to be aware of the risk.

Challenging common ethical traps

[Table 1](#) highlights common ethical traps that can hinder boards' full consideration of ethical perspectives in decision-making.

Table 1: Common ethical traps

Issue	Detail	Example
Form over substance	The risk that the board adopts a narrow ethical perspective, or treats ethical insight as merely a 'box-ticking' exercise.	<p>A mining company has offshore operations in a country with laws that impose only minimal safety standards. A number of competitors take advantage of the limited legal protections to reduce their operating costs.</p> <p>Management calculates that the company could substantially increase profits by adopting a standard lower than applies in Australia.</p> <p>The board struggles with whether to approve a standard of safety that complies with local laws or insist on standards that exceed the minimum required.</p>
Passion over reason	The risk that passion for purpose can be detrimental to good governance. For example, if it is used as a mechanism for silencing dissent or to deny practical realities that affect the interests of the organisation.	<p>A company is led by a CEO who believes that its products will change the world for the better, while generating a healthy profit.</p> <p>The sales team is incentivised to adopt high pressure sales techniques in the belief that this is not only good for the company but also the consumers.</p> <p>The CEO sits on the board and shuts down any questioning by other directors of the sales tactics by suggesting that critics do not understand the noble purpose of the company and the good that it is doing.</p>
Conflicts of interest	Conflicts of interest can compromise objectivity, leading directors to unconsciously rationalise choices that serve particular interests rather than the organisation's. Even when decision-makers believe they remain impartial, the psychological pressure to reciprocate benefits or maintain valuable relationships can skew their judgment, causing them to weigh factors inappropriately or overlook alternatives that would better serve the organisation's interests.	<p>A key supplier provides senior management and the board with hospitality and entertainment.</p> <p>When the supply arrangement is up for renewal, the provision of entertainment may unconsciously influence management and board decision-making on the terms of the arrangement and overlooking competitive alternatives.</p>

Table continues on next page.



Table 1 (continued)

Issue	Detail	Example
The need to be right	The risk that a director or directors prioritise maintaining their image of infallibility or defending previous decisions over acknowledging mistakes, adapting to new information, or making course corrections that would better serve the organisation.	A chair continues championing a struggling CEO the board appointed despite mounting evidence of poor performance and declining results, because admitting the hiring was a mistake would reflect badly on the chair's judgement.
Collegiality vs concurrence	It is important that directors on a board enjoy positive relationships that foster collaboration and the honest exchange of diverse opinions. However, there are risks when the expectations of collegiality give way to an expectation of concurrence. Effective boards encourage evidence-based, principled disagreement.	A CEO is well-liked by the board overall, especially by the chair. The CEO presents an investment proposal. The board demonstrates a reluctance to question and challenge the proposal put before it.
Legacy	Long standing organisations can reap the rewards of a compelling historical narrative. However, there is a risk that protecting organisation's legacy can also make it slow to adopt new ideas and practices. Effective boards navigate both sides of legacy – with an eye to preserving what is valuable in the past but not at the expense of innovation. In this context, the most dangerous words to be heard around any board table are, 'we've always done it that way' or 'that's just the way we do things around here'.	The board of a video-rental company continued to focus on optimising their brick-and-mortar stores and revenue streams from late fees. They dismissed the streaming model as a niche offering that would not threaten their established business. The board's deep expertise in physical retail real estate and inventory management became a liability, blinding them to the fundamental shift in how consumers wanted to access entertainment content.

Key questions for boards

- Does the board, as a whole, have a culture that enables and supports ethical considerations, including calling on and applying the organisation's ethics framework?
- To what extent is the decision before the board clearly linked to the organisation's purpose, values and principles?
- What impact will the board's decision have on the culture of the organisation?
- Is the board's decision framed in language that will resonate within the organisation?
- Where are the potential 'ethical blind spots' on the board? For example, is the proposed course of action being recommended for no better reason than that 'everyone does it'?

Ethics and issues in contemporary governance: AI

As developments in AI continue to accelerate, organisations of all kinds are seeking to adopt it – whether to deliver greater value for customers or to improve operational efficiency. Even where there is no explicit pressure to move fast to gain a competitive advantage, many feel compelled to act simply because peers are doing so. While questions around business benefits, technical feasibility and compliance are often front of mind, an ethical dimension is inextricably intertwined.

At a societal level, big questions are being considered – how will we keep pathways to developing expertise open if entry-level roles disappear? How will businesses create value for communities if AI displaces jobs at scale? Will our data displace our labour as key assets for sale?

The governance of AI is a central issue that boards of all organisations are grappling with, including how to effectively oversee the responsible and ethical use of AI.

See the accompanying boxes for the AICD's joint resources with the Human Technology Institute (HTI) and [Australia's eight voluntary AI Ethics Principles](#) which can both assist a board and organisations in decision-making around AI investment, deployment and use.

Australia's AI Ethics Principles

- Human, societal and environmental wellbeing
- Human-centred values
- Fairness
- Privacy protection and security
- Reliability and safety
- Transparency and explainability
- Contestability
- Accountability

Source: Commonwealth Department of Industry, Science and Resources

AICD HTI AI governance resources

As stewards of organisational strategy and risk management, boards have a key role to play in overseeing guardrails that allow AI's benefits to be appropriately harnessed. This requires a robust governance framework that can adapt to the unique characteristics of AI systems.

The AICD and HTI developed a suite of resources to help boards navigate the ethical and informed use of AI. These resources include:

- A Director's Introduction to AI which aims to provide foundational knowledge of key AI concepts and issues;
- The Director's Guide to AI Governance which outlines eight elements of safe and responsible AI governance.

The resources can be accessed on the [AICD website](#) alongside the [AI use by directors and boards](#) resource.

Applying the four lenses model to AI hypotheticals

The following scenarios illustrate how tensions might arise in the organisational application of AI and how the four lenses model can help a board navigate them.

Scenario	Background	Ethical questions arising
Fairness vs reliability vs contestability	<p>A bank's credit scoring model for home loan approvals is highly accurate. It more quickly processes applications for customers and keeps the bank safe from financial losses.</p> <p>However, it disproportionately rejects applicants from particular minority backgrounds. Adjusting the model for fairness makes it less predictive.</p>	<ul style="list-style-type: none"> • What level of accuracy should we ethically trade-off to achieve greater fairness? How do we weigh potential individual setbacks against systemic inequity? How does our organisation's purpose impact how we approach the above calculus? • What compensating processes can mitigate bias (e.g. human review of edge cases, appeals)? If extending contestability eliminates efficiency gains intended in the short term for our staff, should the AI rollout still go ahead? • Should we deploy the AI at all if we cannot resolve this tension, or does the status quo (i.e. longer waits for everyone) create its own negative consequences?
Human-centred value vs reliability vs accountability	<p>An aged care provider overlays AI technology onto cameras tracking resident movements in order to predict fall risks in real-time. Injuries have decreased since its deployment.</p> <p>However, residents report feeling watched, and that constant staff intervention in their activities is eroding their independence and confidence. Staff feel pressure to respond to alerts, even when they judge risks to be manageable, because they fear litigation or regulatory action if an incident occurs as a result of an ignored warning.</p>	<ul style="list-style-type: none"> • How do we balance safety with dignity? Are we calibrating 'safety' appropriately in the aged care context, where quality of life, as much as physical security, is a legitimate therapeutic good? • Should residents be able to opt out of monitoring, accepting higher injury risk in exchange for privacy and autonomy? • How is the use of AI shifting our organisational culture? Are we acting primarily to serve residents or to protect ourselves?
Human wellbeing vs transparency vs privacy protection	<p>A mental health charity has developed an AI chatbot as a first-response tool for young people in distress. Since its rollout, engagement has increased. Parents are now seeking transparency, particularly around how the model identifies and triages high-risk users to human counsellors. Disclosing too much, however, could enable gaming (either to lift or hide signals of acute distress), expose sensitive conversations that potentially re-identify individuals, and compromise the charity's intellectual property.</p>	<ul style="list-style-type: none"> • How much transparency is needed to earn trust from relevant stakeholders – youth (users), their parents, doctors, and funders – without compromising privacy? • What alternative explainability approaches have been explored (e.g. model cards outlining high-level logic and assurance from an independent auditor, rather than the specific risk indicators and training data itself)? How have we weighed pros and cons between options?

The four lenses model in this guide is a tool to help directors pick up on the kinds of ethical questions outlined above. They prompt a board to consider that just because we can, it does not mean we always should.

Lens 3: Interpersonal relationships and reasoning

Boards are collections of individuals who bring their own decision-making style, background and morals to the board table. Power dynamics exist in any group, with each person influencing and being influenced by others.

Some of your fellow directors may share your perspectives, but there will be others with whom you frequently disagree. Boards are collective decision-making bodies where accountability lies with the whole board as opposed to individual directors.

As such, care is needed so that interpersonal relationships between board members do not distort the ethical judgement of the board as a whole.

“

Effective directors are wary of group think. They also learn how to productively use diverse perspectives.”

Senior director

Promote varied perspectives

Effective boards are wary of group think. These boards learn how to productively use varied and diverse perspectives. This requires directors to have a high level of self-awareness and the ability to tune into the thinking of others.

Techniques to leverage diverse experiences, insights and opinions include:

- Be cautious of uniformity. The enemy of diversity is not necessarily a dislike of difference but, rather, an unconscious bias in favour of those who are like us or share our own beliefs. Good boards are built on relationships of trust. It is generally easier to trust ‘people like us’, than those who are different. Yet it is this latter group which can add great value to a board’s ethical deliberations.
- Be conscious of assumptions. It is easy to make ethical mistakes due to reliance on false assumptions. This error extends to stereotyping, especially when used as a shortcut to avoid spending time to understand the truth about a situation or person.

- Aim for effective communication. Be aware of differences in communication styles – in terms of how people both send and receive information. These differences may be influenced by traits such as age, gender, seniority, ethnicity, skill set and even mood. Important ethical insights can be missed in cases where, say, a quietly spoken director is waiting to be invited to speak while others are quick to voice their opinions. Chairs play a key role to actively manage dynamics so all of the relevant voices are heard.

Insights from an experienced director on assumptions

“There is a view that women bring something different to the board table because they are women. This is true to an extent. Women have a common experience of overcoming hurdles that most men have not had to encounter. But I don’t think that women have different behaviour or character traits (e.g. more compassionate, inclusive, or care about soft issues). “Gender-driven assumptions about who is going to care are not constructive. Sometimes as a woman, I self-edit. I won’t raise a point because then I’ll be ‘the woman’ asking the question. Then I have to double correct and ask it anyway.”

Ethical pitfalls

Ethics is the practice of making decisions based on a conscious application of core values and principles. It draws in all who have a legitimate voice in the conversation, including those whose interests might diverge. It is important that multiple forms of ethical reasoning are considered in the course of decision-making. All of this takes time.

Some common ethical pitfalls to watch out for are:

- Rushing straight to the numerical result. Some people may favour decision-making based on numbers, as it appears more rational and objective than arguments that do not invoke quantification. However, it can reduce ethical discussion to a simple trade-off of known or potential costs against known or potential numerical benefits. This can result in missing important perspectives that are not reducible to numbers, or for which numbers do not yet exist. Further, it discounts the potential for estimates to be incorrect or based on false assumptions.
- Ignoring flow-on effects. Some people may focus on first-order effects. These effects are generally clearer and more controllable than second order and flow-on effects. However, questioning what the flow-on effects of a decision may be can assist in avoiding unintended consequences.
- Failing to question intuition. People often approach ethical issues from an 'ethical intuition' perspective; firstly, judging what is good and what is right based on a gut feel, and then using cognitive reasoning to explain their intuitions. Alternatively, our intuition may be the product of confirmation bias, namely, the tendency to interpret new information as confirmation of one's existing perspective. In any case, intuition should be carefully explored to safeguard against selective preconceptions.
- Defaulting to reactive decision-making under time pressure. When boards face tight deadlines, they often fall into a reactive decision-making mode that prioritises immediate problem-solving over thorough ethical analysis. In this mode, they risk potentially overlooking long-term consequences or stakeholder impacts. Time pressure can also create a false sense that corners must be cut or that 'perfect is the enemy of good', leading boards to rationalise decisions they might otherwise recognise as ethically questionable if given opportunities for proper deliberation.

Be sensitive to board practices and power dynamics

Boardroom ethics can be strengthened by greater reflection on the way power is exercised – in the boardroom and, more broadly, in the director community. Things to note include:

- Boards are collectives but there is increasing focus on the individual accountability of directors, including by regulators. There is a risk that some directors may judge every matter in terms of personal risk, allowing the instinct for self-preservation to frame and influence decisions.
- Often, there are unwritten board protocols that directors consciously or unconsciously follow. It is useful for directors to understand the way that protocols and power dynamics are influencing their thinking and conduct.
- Less-senior directors, who are building their portfolio of directorship experience, may feel they need to conform with the views and practices of more experienced peers. Senior directors and chairs can assist by taking positive steps to draw out the views of their less experienced peers and thereby improve the depth and quality of ethical debate. The same principle may apply to newly appointed directors to the board.
- Informal 'out of session' discussions between individual directors, or small groups of directors, are a reality for many boards. Floating ideas and seeking to understand the perspectives of other directors can be useful, as it can consolidate options and opinions and save time. On the other hand, it can undermine collegiality, trust and transparency among board members. External 'caucusing' can also undermine the value of genuine debate among the board as a whole.
- Conflicts of ideas and perspectives are natural. It is important to approach conflicts with emotional intelligence and patience. Conflicts, if dealt with appropriately, are a learning opportunity to discover and engage with new perspectives.



The role of the chair

The chair can help each director feel more empowered to question the ethical implications of issues and decisions. This will give the board the best chance of being ethically consistent.

An effective chair will:

- use their authority to draw out relevant ethical issues and perspectives;
- notice and manage the personalities in the room, so all voices are heard and opinions considered; and
- curb inappropriate boardroom behaviour. An agreed board Code of Conduct can provide a useful point of reference.

Insights from an experienced chair

The chair is a facilitator or conductor. Chairs have a responsibility to help directors (including new directors) feel comfortable with sharing their views. As a chair, it's important to:

- have a learning mindset, as there is always opportunity for growth and improvement;
- deal with problems, and not let them remain beneath the surface;
- bring new blood to the board and draw out the new perspectives on offer;
- be aware of board culture; and
- have strong interpersonal skills.

Key questions for boards

- Have you considered how group dynamics impact board discussions, including how your own default decision-making style fits in?
- Is there a too comfortable drift towards agreement? Or is there an active effort to promote, recognise and encourage differences of perspective?
- Are the opinions of some directors too easily dismissed because they are not subject matter experts? Are the opinions of some directors given too much weight because of their seniority?
- Does the board identify and question the assumptions on which recommendations are based? Are directors given the time and opportunity to offer critiques of their own arguments?

Lens 4: The individual director

Each person draws on a personal framework of values and principles. In some cases, the framework is consciously held in one's mind. In other cases, there are unconscious determinants at work. The ability to negotiate ethical differences begins with self-awareness.

Acknowledge yourself as an ethical actor

Ethics is rarely a dedicated skillset of any one director. Instead, it is typically an area of general experience among directors.

Directors must be free to comment on an issue of:

- ethical content (the decision at hand); and
- ethical process (how the board or broader organisation makes decisions or behaves).

It is important to remember that your wisdom and ethical opinions are valid and useful perspectives, and that the ethical opinions of other directors are equally so. However, directors' personal values and principles are always subordinate to the best interests of the organisation (see reference to the best interests duty in [Lens 1](#)).

Understand motivations and biases

Motivations affect our ability to make unbiased decisions. Directors have various motivations for being on boards, including alignment with the operations and values of the organisation, personal growth, societal contribution, skills development and career advancement. Sometimes our motivations work unconsciously to make us read situations and apply judgements that suit our individual interests.

It is useful for each director to examine their own motivations. Some questions to ask are:

- Is my thinking here at its independent best and free from the subtle influence of self-interest?
- Am I giving priority to information or perspectives that confirm what I already believe?
- Am I keen to agree with a perspective because other people hold this view?
- Am I relying too heavily on the first piece of evidence to come to hand?

Consider also the motivations of other directors. This must be done without judgement. Rather, it is a way to understand others' perspectives and where their strongly held views may stem from.

Strongly held personal values should not be the only motivation and frame for debate. This can be a particular issue at NFPs and charities where individual leaders and directors may have a particular passion for the purpose of the organisation and may have been involved in founding the organisation. This passion can distort or influence a board's consideration of issues and decisions.

The personal passion and values of individual directors must be subordinate to the organisation's best interests and broader strategic considerations.

Notable points from the 'Conflicts of Interest and Disclosure' research paper prepared for the Financial Services Royal Commission

- Conflicts of interest lead to significantly more bias in advice.
- Susceptibility to self-serving bias occurs at a subconscious and unintentional level, rather than deliberate corruption. This leads to rationalisation of self-serving behaviour.
- Even when educated about bias, people tend to drastically underestimate the extent of their bias, and see themselves as immune from the effects of conflicts of interest. The greater self-control people feel, the more likely they are to place themselves in situations of temptation and the more likely they are to lapse.
- Policies to prevent conflicts of interest are more effective than policies to manage them.

Insights from an experienced director on seeking guidance and support

"It is important that directors seek guidance and support from other directors, the chair, trusted confidants and mentors. Of course, this must be done within the bounds of directors' duties and confidentiality.

"Seeking support can help you stay grounded and also lift you up. By expressing your doubts, you can find confidence. By seeking another opinion, you can firm up your own thinking. 'Downloading' with other directors can put things into perspective and release the emotional charge from an issue."

Acknowledge vulnerability

Given the intersection between personal values and principles and those of the organisation, addressing ethical issues can often create a sense of vulnerability in directors, especially if there is a clash of personal ethical frameworks. As such, practicing ethics in the boardroom requires honesty, authenticity and a high degree of trust.

- Take off your armour. If directors approach the boardroom wearing impenetrable armour, there will be the strong temptation to avoid ethical deliberations. The best boards leave their armour at the door, something that is only possible where work has been done to build and reinforce trust among fellow board members.
- Feel confident to say, 'this may be a dumb question'. This rhetorical device helps people overcome the fear of looking stupid and will often reveal critical information and insight that benefits the board as a whole.
- Be comfortable with changing your mind for the right reasons. While it is the board's job to reach decisions, it is also important to be reflective. Changing your mind may make you feel vulnerable, but it is a legitimate outcome of true reflection.
- Be sensitive. Engaging in ethical discussions in the boardroom means being sensitive to others' vulnerability.
- Be respectful. Directors need to distinguish between robust questioning and debate and destructive behaviour that fails to show adequate respect to others.

Key questions for directors to ask themselves

- Do my personal values and principles align with those of the organisation?
- Do I understand my own motivations and biases? How would my motivations look from an external perspective?
- Do I recognise my own preferred style of decision-making? Am I open to different approaches?
- Am I able to recognise and declare when I'm 'out of my depth'? If so, have I sought counsel (if appropriate)? Am I prepared for potentially difficult debates?

A practical example: Using the four lenses model

Hypothetical scenario: You are one of five directors serving on the board of Banksia and Myrtle Foods, a family-founded snacks company that has grown from a regional farmers' market stall to a nationally recognised brand. Banksia and Myrtle's purpose is to "make sustainably produced foods accessible to more Australians". Its core values are Integrity, Nourishment, Community and Stewardship.

In the face of sector consolidation and rival suppliers competing on price through scale, the board has been asked to approve a three-year transformation package that includes the following measures to maintain profitability:

- AI-powered dynamic pricing on the direct-to-consumer digital commerce platform, adjusting prices in real-time based on customer behaviour, purchase history, and location data.
- AI use across operations to optimise production, inventory management and customer service – improving efficiency and reducing food waste.
- Workforce restructuring – eliminating a quarter of the workforce, with redundancy packages that comply with statutory minimum requirements.
- Renewable energy infrastructure – using a third of the projected AI and restructuring savings to install solar and battery so the manufacturing facility can be powered by 100% renewable energy.



Lens 1: General influences

Dynamic pricing is increasingly common practice in digital commerce. However, there are growing questions around transparency and fairness. These include whether customers can consent and opt-out, and how pricing systems will be used to improve profitability overall while potentially expanding the access lower-income households have to healthy snacks.

Further, while decarbonising improves environmental outcomes and is expected to boost brand value, the case does not appear to have been fully made on its own merits. Rather, management seems to be amplifying measurable emissions-reduction (environmental) commitments as it quietly retreats from social commitments around being a provider of livelihoods. While you understand the broader commercial pressures facing Banksia and Myrtle, you begin to wonder whether the AI and restructuring proposals would be acceptable in their current form, on their own merits.



Lens 2: The board's collective culture and character

Banksia and Myrtle has consistently positioned itself as the authentic alternative to other brands, emphasising its values, family heritage and long-term relationships in the region it produces. Flagship marketing campaigns in previous years highlighted employee stories and how “every person is part of the Banksia and Myrtle family”.

Recent board discussions, however, acknowledge that stronger competition is slowing revenue growth. Major retailers are also pressuring Banksia and Myrtle to reduce prices in exchange for shelf space. This shelf space has been hard earned over time and is seen as a key driver that makes Banksia and Myrtle's snacks more accessible, as per its purpose. The CFO has warned that without cost reductions, the company will soon no longer be profitable.

You want to ask the counter-factual and explore alternatives, like understanding whether expansion into adjacent food ranges like cereals could help with the revenue challenges. However, board discussions are often cut short as the chair focuses on sticking to the timing in the agenda.



Lens 3: Interpersonal relationships and reasoning

Three of Banksia and Myrtle's five board members today are representatives from the founding family. The chair is the founder's son, and a key advocate of the transformation. He positions the work as evolving his mother's founding vision, proving that Banksia and Myrtle can modernise and scale.

Tensions, however, are simmering. The founder has grown quiet. Privately, she tells you that she is concerned about whether the proposed changes will be perceived by customers as a departure from the down-to-earth brand they know and, in turn, undermine customer loyalty and trust. Further, she understands that while financial modelling indicates that the transformation package overall will improve Banksia and Myrtle's commercial performance, she feels guilty and wonders whether her son fully appreciates the impact of redundancies on their regional community. She also quietly wonders whether she has lost touch and is failing to accept the changing times.



Lens 4: The individual director

You are the newest independent member on Banksia and Myrtle's board and you joined because the company's values and overall approach to business complement your own. You have been brought on for your skills and experiences in manufacturing and retailing. The transformation being discussed, however, is making you uncomfortable.

You are sensitive to the impacts of climate change and the need to decarbonise. You are concerned that asking questions about the broader package will lead others to characterise you as a blocker of progress, and that it risks derailing the renewable energy commitments you think will be a great example of what is possible for the broader region. You also feel uncomfortable given your limited time on the board.

Analysis

An analysis through the four lenses reveals a company facing a series of intersecting ethical questions. The issues involve competing legitimate interests: commercial sustainability, environmental responsibility, workforce welfare, regional community impact and accessibility for customers. The board's challenge is not simply to choose between right and wrong, but to determine whether the trade-offs align with the company's stated purpose and values, and whether less harmful alternatives have been adequately explored.

A decision-making framework for responding to ethical issues

Ethical issues do not necessarily come flagged as such. For example, there can be an ethical dimension to issues of capital allocation, new product approvals, or the development of key strategic partnerships.

Generally, management will present directors with recommendations or actions for how an organisation could act. These recommendations will often be in line with ethical standards. However, there will be times when ethical issues are at risk of being overlooked or where the complexity is such that no simple answer is recommended.

These moments are often pivotal as they represent times when a non-financial risk can be 'crystallised' to the point of representing financial risk. In these moments, it is important to apply a comprehensive framework for assessing the options before the board.

While the four lenses detailed in this resource are useful for revealing the range of ethical issues that can be embedded in a decision that comes before the board, it is also important that directors have access to a reliable and replicable decision-making process. [Table 2](#) sets out a framework developed by The Ethics Centre to meet that need.

The five-phase decision-making framework

The five phases in this framework are: Frame, Shape, Evaluate, Refine and Act.

The five-phase framework offers a clear and simple basis for addressing the ethical dimension of any decision. As with all processes, it is not a substitute for judgement. If rigorously applied, it will help ensure that decisions made in the boardroom are ethically defensible – even where they may be controversial for some stakeholders.

Table 2: Summary of the decision-making framework

Phase	Purpose	Core questions and steps to take
 Frame	To define and understand the precise nature of the issue to be decided.	<p>What are the facts?</p> <p>How are these facts linked to the organisation's core values? (see Lens 2)</p> <p>What assumptions are being made about the world in which this issue is being decided? (see Lens 1)</p> <p>Are there any 'non-negotiables' (e.g. relevant laws that must be obeyed)? (see Lens 1)</p> <p>Whose 'voice' should be heard (i.e. who has a legitimate interest in this matter)? What is the nature of each legitimate interest? Are the interests aligned or divergent? (see Lens 1, Lens 2, Lens 3 and Lens 4)</p>
 Shape	To develop options that could resolve the issue. Some of these options will have been developed by management, others by directors (see further discussion below).	<p>What kind of issue are we dealing with?</p> <p>Is it just a moral temptation (the possibility to benefit from doing something questionable)? Or is it a genuine dilemma in which competing values and principles seem to require incompatible outcomes?</p> <p>What are the options?</p> <p>This is both the most creative and difficult part of the process because nothing should be 'off the table'. By exploring all options, there is a chance 'inflection points' can be found.</p> <p>What options have already been rejected by management? Seek to understand whether the options have already been tailored to the outcome the CEO, and/or chair, is seeking.</p>
 Evaluate	Apply a matrix of values and principles to evaluate the options (see further discussion below).	<p>Take two or three of your best options and apply the matrix as set out below.</p> <p>Its purpose is to ensure that, as a minimum, an organisation's values and principles are used as the 'index for judgement' (see Lens 2).</p>
 Refine	Identify and eliminate weaknesses in the proposed course of action.	<p>Play the 'Devil's Advocate' by taking up the option that has fared best in the matrix in order to identify its major areas of weakness.</p> <p>Ask for a 'pre-mortem' where the executive team is asked to assume the project fails, and to work out why, as a method for identifying and mitigating potential risks.</p> <p>Adjust the proposal to eliminate the weakness without damaging the overall integrity and utility of what has been proposed.</p> <p>Put the proposal to some final tests, such as: how would I feel if this was done to a loved one? Would the person I admire most in the world do this?</p> <p>Can technology, such as AI systems, assist us in exploring the options and highlighting strengths and potential weaknesses?</p>
 Act	All ethical decision-making is practical – it ultimately requires that a decision be given effect.	<p>Give effect to your decision.</p> <p>Monitor the outcome.</p> <p>Offer reasons for your decision, whether or not it is challenged.</p> <p>Reflect on the decision and what can be learned from the process and how it can be applied in the future.</p>



‘Shaping’ options to create inflection points

Tough ethical decisions are those where equally valid values and principles require opposing courses of action. While hard trade-offs are sometimes required, an ‘inflection point’ can sometimes be found where one is able to revisit and resolve the underlying terms of a dilemma.

To increase the likelihood inflection points are created, all ideas, including those apparently outlandish or easily overlooked as being marginal, should be explored at the second phase of the decision-making framework. Sometimes the seeds of a brilliant solution can be found in the unexpected.

The matrix for ‘evaluation’

A matrix approach is recommended for the evaluation phase. The example shown below is solid in its form but flexible in its content – organisations can adapt the values and principles to reflect their specific context.

The simplest form of the matrix is as follows:

Options Value or principle

	V1	V2	V3	V4	V5	P1	P2	P3	P4
A									
B									
C									

In using the matrix, organisations will need to determine which values and principles have greater priority, or ‘weight’, in comparison to others. For example, priority should always be given to those values and principles explicitly adopted by the organisation over those that its stakeholders, in general, might apply. Within that list of explicitly adopted values and principles, priority ought to be given to those that most closely align with purpose, or that have a particular link to strategic risk.

For example, mining companies will typically prioritise the value of safety over that of efficiency. Both values are important – but safety is of prime significance given the level of risk encountered at most mine sites. That said, values and principles can shift in terms of their relative priority. For example, will this prioritisation change in line with the automation of mining operations – with humans playing a decreasing role at ‘the coal face’.

Once the matrix is populated, it helps to determine which options best accord with the nominated values and principles.



Broader questions that support 'evaluation'

Below are an extended set of questions that can assist in evaluating and potentially refining the options created.

- Would I have this done to me or someone close to me? This is derived from the established principle of 'do unto others as you would have them do unto you'. Additionally, consider the potential impact on a loved one or close friend as a way to remove a personal perception of being resilient or cavalier. In one form or another, this principle of reciprocity occurs in many cultures across the world.
- Will this produce the best outcome? There is a long tradition of deciding matters according to their consequences. A key related question for a director becomes, 'what then counts as a good outcome?'. This question drives back to the issue of an organisation's values (which define what is 'good'). It also invites directors to consider how outcomes for the organisation could be balanced against those for its stakeholders, including wider society.
- Would this make a good rule for all? This question tends to focus on issues of rules and duties – some arising from actions like promise-making, others embedded in legislation, and others being the product of reason. Directors answering this question are required to look behind the rules to see what the issue of substance is they are attempting to address.
- Would I be proud to see this fully disclosed? This is a version of the famous 'sunlight test' that champions the corrective effects of transparency. It is important to note that this question does not seek to determine what would be popular in the eyes of others. Rather, it calls on directors to decide if they would be proud to stand by their decision in the 'full light of day'.
- Does this respect fundamental human rights?
- Does this show a proper care and regard for others? This question seeks to look beyond issues of formal reasoning to invoke a notion of care for others. It draws on an intuitive sense of how others might be affected by a decision – in terms of basic well-being and welfare.
- How will this decision shape the character and culture of the organisation? This is an often-neglected question – but may be one of the most important of all for directors. Every decision by a board helps to shape the ethical environment of an organisation. For example, accepting lower standards or management practices in another country may ultimately infect the culture of the organisation in Australia, as management move around and are promoted. Even apparently mundane matters of policy can be rich in their symbolism – conveying messages about what is truly valued within the organisation.

Conclusion

There is a growing awareness that the gap between financial and non-financial risks is often illusory.

Ethical failure can destroy value, especially in organisations where significant value is in intangible assets such as goodwill. Attempts to prevent ethical failures by relying on increasingly comprehensive systems of regulation, surveillance and internal compliance are insufficient. This was predictable, as the compliance 'cure' addresses symptoms, rather than underlying causes.

In becoming more adept at managing ethical complexity, the decisions directors make shape the character of organisations, and more broadly, impact the ethical foundations of the markets in which they operate. That, in turn, plays a role in shaping both government and community responses.

This publication does not attempt to provide an answer to the many specific ethical questions that directors will need to answer. However, it is a guide to how one might go about that process. The methods and considerations proposed will not 'stick' immediately. The skill of ethical decision-making is only refined with practice.

We recommend that boards engage in that practice, both at the level of individual directors and as a whole.

Acknowledgements and resources

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Resources

AICD

- [Directors' Guide to AI Governance](#) suite of resources, with HTI (2024)
- [Social issues & the board: Voice to Parliament](#) (2023)
- [Directors' 'best interests' duty in practice](#) (2022)
- [Elevating stakeholder voices to the board](#) (2021)
- [Governing organisational culture](#) (2020)

The Ethics Centre

- [Productivity and ethics](#), with Deloitte (2025)
- [A guide to purpose, values, principles](#) (2020)
- [Ethical by design evaluating outcomes: Principles for data & development](#) (2020)
- [Managing culture: A good practice guide](#), (2019)
- [Trust, legitimacy & the ethical foundations of the market economy](#) (2018)

Acknowledgement of Country

The Australian Institute of Company Directors (AICD) and The Ethics Centre acknowledge the Traditional Custodians of the Lands on which we are located and pay our respects to the Elders, past and present. We acknowledge the First Nations people across this Country and recognise their unique cultural and spiritual relationships to the Skies, Land, Waters, and Seas and their rich contribution to society.

About the AICD

The AICD is committed to strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. Our membership includes directors and senior leaders from business, government and not-for-profit sectors.

About The Ethics Centre

The Ethics Centre is a not-for-profit organisation developing innovative programs, services and experiences, designed to bring ethics to the centre of professional and personal life.

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