

How the unsaid shapes decision-making in boards



Introduction

Why are boards of directors not always able to prevent boardroom scandals? Research by Marilieke Engbers shows that intuition plays a large role in decision-making.

Title : How the unsaid shapes decision-making in boards
Author : Marlieke Engbers
Published in : Goed Bestuur & Toezicht (Goed Bestuur & Toezicht 1/2021)
Date of publication : 22-03-2021
Tags : scandals
Selected by : (m.j.e.engbers@vu.nl) op 29-03-2021

This article/chapter is from Goed Bestuur & Toezicht. Copyrights reserved. This text is not intended for commercial distribution. For commercial distribution, please contact the publisher: Mediawerf Uitgevers, www.mediawerf.nl. Email address: klazinus@mediawerf.nl.

Recent scandals have shifted the focus to what goes on in the boardroom. This has given rise to the question of why boards of directors, responsible for supervising these organizations and for safeguarding and sustainable protecting stakeholders, were unable to prevent these scandals. What are the reasons that they did not independently make the right decisions?

Research by **Marilieke Engbers** shows that intuition plays a large role in decision-making. This intuitive assessment of a situation determines what is discussed and what remains unsaid by a Board of Directors.



Dr. Marilieke Engbers has over 20 years of experience as a leadership and change consultant, is a teacher for the Executive master in Finance & Control at VU Amsterdam, and took her PhD degree on 'the unsaid in the boardroom' in 2020. As a co-director at the Research Center for Board and Leadership development, her focus on the scientific study of decision-making in the boardroom and on the practice of corporate governance. In 2019, she published the Dutch report 'Kracht en Tegenkracht' (force and counterforce), commissioned by Dutch housing authority Autoriteit Wonen.

How the unsaid shapes decision-making in boards

Although the function of and intent behind a board of directors is of institutional interests, scientists still have only a limited understanding of the decision-making processes in the boardroom. The PhD research 'how the unsaid shapes decision-making in boards' (2020) attempts to uncover the black box of board decision-making¹.

The goals of the interpretative and abductive² study is to present theories or models that explain how individual board members make sense of their situation and collectively decide on strategic decision.

Research approach

The researcher observed 25 board meetings of 17 (two tier) boards and interviewed 119 board members on what occurred during those meetings. More specifically, she investigated how the executives and non-executives responded 'in action' and how they consciously or 'preconsciously' chose not to express their thoughts or feelings. Preconscious thoughts and feelings are those that are considered self-evident (implicitly understood) but which, by enquiring after

them, are transported to the conscious (the unsaid). That which is spoken is only considered to be spoken once it is shared with all the parties involved. Preliminary theories or propositions resulting from an iteration between a) what individual board members shared in interviews, b) a comparison of those reflections with tape recordings of the meetings, c) a comparison of the reports per role and per board, and d) academic theories that explain the data.

The ‘unsaid known’

It is often assumed that directors make decisions together following a mutual, thoroughly rational analysis. However, this PhD study shows that directors often first make an intuitive, subjective assessment before substantiating their opinion with conviction. During argumentation, tension, emotions, and defensive routines can be activated if directors are convinced of their initial intuitive assessment and convinced that they are correct.

This reversal has major consequences on how decisions are actually made. The intuitive assessment of the situation that directly determines what is or is not said is referred to as the ‘unsaid known’.

The intuitive assessment does not only determine what people do not say, but it is also simultaneously formed by what was unsaid before. Although people tend to focus on what is being said, they pre-consciously, or naturally, automatically, listen to what is not being said but being thought and felt instead.

During meetings, these intuitive assessments occur rapidly and, therefore, ‘pre-consciously’. Pre-conscious means that actions are performed in a self-evident manner. Process occurs only *after* the moment has gone; it is then that people are able to articulate what they thought and felt but did not say.

‘I think he feels attacked because he thinks...’ As more is being left *unsaid*, that which is unsaid comes to influence the intuitive assessment more than what is being said. These processes occur mainly invisibly and continuously. The unsaid known is a relational construction, as it is difficult to know who exactly did not say what at which time. If there is tension, however, all those present feel that there is ‘something’ that is not being said, but that is being thought and felt. Often, the meaning of this tension is only analyzed when the moment is gone, since it is

difficult to analyze thoughts and feelings during a conversation.

In the context of the boardroom, directors continually make unspoken assessments of how well the organization and the CEO function. If an organization or CEO’s performance is meeting expectations, their reactions during meetings are logically more relaxed than they would have been if there had been issues or if they had had critical remarks. The *manner* in which questions are posed and remarks are made therefore offers information about the directors’ implicit, intuitive but unspoken assessment of a situation.

Whether and how other directors then respond depends on the extent to which they share the assessment. Varied assessments of an organization or CEO’s functioning may result from directors having gathered differing information or having interpreted the same information differently.

The common question: ‘CEO, can you clarify these figures?’, can be posed by a speaker in a variety of undertones, and be interpreted in a variety of manners as well. The manner, the tone in which a question is posed notifies the recipient of whether the speaker is concerned, or whether it concerns a routine question.

Paradigm and tension in the boardroom

How directors make an unspoken intuitive assessment of their situation and how they respond depends on their paradigm. A paradigm is defined as a system or set of assumptions or implicit theories³ regarded as self-evident, and which determines automated behaviors in specific context. A paradigm enables a director to rapidly assess a situation and respond in a routine manner.

Having a paradigm is essential for directors in particular, as they must deal with complex and challenging, strategic issues that demand an assessment and response in very limited time.

An experienced driver is no longer aware of the theories or logic they have developed to enable their uncomplicated response to unforeseen traffic situations. The same applies for experienced directors: they have also developed theories based on years of experience – theories that shape their actions. Particularly if one's paradigms have frequently proved successful in the past, their application becomes self-evident for their owner – thereby marking any other interpretation of a situation as incorrect.

When directors assess a situation differently and give a response that others as a result consider incorrect or inappropriate, tensions can occur in a meeting. Opening up these perceived tensions for discussion is difficult enough for any 'regular' team; but particularly in the context of the boardroom, the directors' restricted mutual time, rigid agenda structure, and the visibility, complexity, and importance of their work complicate matters even further.

Paradigm attachment

The study also shows that paradigm attachment is a deciding factor for the manner in which tensions resulting from differing intuitive assessments are handled. Paradigm attachment is when someone considers their paradigm or set of implicit theories to be objective and true and has therefore lost any conscious awareness of the theories that shape their behavior. This person identifies with their paradigm to such an extent that they will react defensively if their paradigm is challenged⁴.

A director who is subject to less paradigm attachment with regard to a particular subject is more easily influenced by others ("They will know what they

are talking about") than a director subject to greater paradigm attachment. The greater the paradigm attachment to which a director is subject, the more often they will win the argument. Winning the argument, however, does not automatically mean being correct. If the opinions of a director subject to less paradigm attachment are insufficiently considered, the quality of decision-making will be influenced negatively.

Although any individual is subject to paradigm attachment when it comes to topics that matter to them, paradigm attachment is important in relation to governance.

Directors are selected based on their unique expertise and experience, with the implicit expectation that they will wield these aspects with conviction. As a result, a board of directors will automatically comprise various experts who – because of their expertise and experience – may be less open to being wrong.

In the context of decision-making, varied perspectives or paradigms are assumed to lead to good decisions, at least when these differences are being shared and received. An exchange of conflicting thoughts and feelings is necessary, even when discussing topics outside someone's remit. This also means that also experts should be open to being wrong, and allow themselves to be influenced by correct non-experts. This is easier said than done, particularly if people are convinced that they are right. Responses and counterarguments may activate defensive routines to 'protect' one paradigm.

Paradigm attachment and conflict

If someone is subject to paradigm attachment, any tensions can lead to the rapid intuitive assessment that the 'other' is the problem. This fallacy is supported by the notion that two people cannot be correct if they have a difference of opinion – if both

think they are objective and rational. Therefore, the 'other' must be the problem! In the case of paradigm attachment, the cognitive conflict automatically becomes a functional or performance conflict (for example: 'He lacks experience,' 'does not yet understand these situations') or even a relational conflict (for example: 'He is too dominant and self-absorbed' or even 'narcissistic').

In such cases, directors focus on each other's functioning instead of on the underlying related differences in paradigm. This automatically also leads to a governance conflict. If the director who has a minority stance or deviating style is held responsible for the conflict, it will cause others to automatically assume that coaching this individual is the only possible path to a solution.

There are several distinct forms of conflict:

- A cognitive conflict is one where the directors have a difference of opinion on a certain topic. This type of conflict is desirable, as it enriches decision-making.
- A functional conflict is a difference with regard to a colleague's role and functioning.
- A relational conflict is a conflict about a colleague's reliability.
- A governance conflict is a conflict about the person responsible for a conflict, problem, or dilemma and the manner of its resolution.

The doctoral study showed that the manner in which a conflict unfolds depends on:

- a) which directors with *what roles* originally experience a conflict, and why;
 - b) the extent to which the directors are subject to paradigm attachment;
- whether and how the other directors are involved via informal conversations (thereby also involving informal hierarchical relationships). In case of a conflict, an experienced chair who has a connection to another experienced

director and CEO and talks to both parties regularly will work from a different basis than a young, inexperienced director who has not enjoyed an informal relationship with other directors and CEO.

For example, one director explained that she did not agree with the manner of the board's functioning. This assessment was based on the manner in which the chairperson addressed the CEO and other colleagues. She decided, due to her *own assessment of her self-assured, convinced fellow directors based on relatively limited experience and resulting limiting influence on the decision-making processes*, to wait until a new chair had been appointed. Her assessment was that, at such a time, her ability to influence proceedings would be improved. Offering her opinion too early on might lead to a nasty conflict that she would lose anyway. Incidentally, the risk of conflict was a real one, as there had been a conflict between this director and other one during a meeting attended by the researcher. The performance of the perceived inexperienced director was mentioned in the interview as less experienced and therefore less relevant.

Conflict can be resolved if one of the directors 'takes one for the team', either by keeping their opinion to themselves or leaving the board. But this is actually counter to the principle underlying a board of directors. The whole point is that various paradigms are shared, that implicit theories are investigated to for their accuracy, to use these conflicting insights and theories to arrive at high quality decisions.

The unsaid and informal conversations

Informal conversations, used to manage tension and conflict, is experienced as positive by many directors. If the informal conversation is successful in managing a conflict, all directors feel relieved because it allows them to refocus harmoniously on their task.

The more subtle influence of these conversations on formal decision-making, however, is underestimated.

If, for example, a director is challenged by a colleague, or offered subtle suggestions that their approach does not fit, they are ‘taught’ that this is not the way to act. The director must then decide whether to conform to these informal rules, or to risk the consequences of a failure to conform.

During these information conversations, directors and CEO depending on the situation, synchronize and reinforce their paradigms preconsciously. Topics of conversation include substance, as well as situations, actions, sensemaking, judging and evaluating. This information is used in determining what (not) to say during both current and future tensions. If the synchronization takes place in sub-groups of directors who trust each other with similar paradigms instead of the plenary group of directors, different subgroups with different paradigms are formed. A subgroup may even comprise a single member. As a result of this, ‘winner’ decides and will come to depend more on *what* exchanges and *what* influence occurs during informal conversation than on decisions that are the result of a thorough, plenary, formal exchange of paradigms and associated intuitive assessments. The study shows that directors who do not take part in information conversations still (intuitively) know which directors have met up, and which directors support each other. This information is used in their silent assessment of how best to respond to current and future situations and tensions.

If two directors informally discuss a particular issue and make eye-contact when discussing that topic during a meeting, this eye-contact will affirm their analysis. As a result, their confidence may be improved when offering their input.

Board of Directors Board Climate and the unsaid

How a director intuitively assesses a situation and responds, depends on their underlying implicit silence theories that are a subset of their paradigm. Silence theories are core assumptions, considered to be self-evident and help directors decide what to say and not to say. These ‘if-then’ theories enable a director to estimate rapidly and routinely the potential consequences of speaking ‘in the moment’. For example: *‘If I were to offer my opinion now, I expect that we would not be able to cover the full agenda within the allotted time, and I expect that the chairperson would hold this against me.’*

These silence theories are classified into:

- silence theories related to an assessment of ‘how one should behave in the context of governance’ and ‘how to comply to rules and codes’;
- silence theories related to an assessment of how to cope with lack of time;
- silence theories related to an assessment regarding the profitability of silence versus voice (do I expect to have an impact?);
- silence theories related to an assessment regarding the ‘real or perceived risk’ resulting from speaking.



‘Directors first make an intuitive, subjective assessment before substantiating their opinion with conviction’

This risk encompasses both risks to personal image or career, and risks of creating a conflict that might disrupt the board’s cohesion. Cohesion is defined as the extent to which the directors are willing and able to work well together on a basis of adequate trust and respect.

Particularly if the intuitive assessment is that things are going well, directors tend to act mainly from the basis of silence theories related to ‘compliance, ‘lack of time,’ and ‘profitability,’ and less from the silence theories related to ‘risk’.

However, if the intuitive assessment is that there is tension or conflict, mainly silence theories related to ‘risk’ come into substantial play. The risks perceived by directors may be real.

As directors who perceive tension or conflict act from different silence theories than those who

do not perceive such tensions, knowledge of whether any director is perceiving any tension or conflict becomes vital to handling tension.

For example, the majority of a group may feel there is no issue, whereas individual directors do experience a conflict that they pretend not to notice.

If everyone says that things are fine, it may be difficult to be the only voice in a group stating the opposite. Your criticism disrupts the status quo, and the pleasant idea that all is well.

Four types of Board climates

The study distinguishes between four board climates (see the conflict and cohesion frame). Each board climate

Conflict and cohesion

BOARD CLIMATES	LOW COGNITIVE CONFLICT	HIGH COGNITIVE CONFLICT
HIGH COHESION	<p>Compliance/task distribution-culture:</p> <p>Directors think all is well, and operate on motives like ‘compliance’, ‘time’, ‘profitability’ and ‘efficiency’. The ‘risk’ motive is restricted by a strict climate of division of labor: people limit themselves to their own expertise and portfolio. The chairperson feels responsible for settling any conflicts informally.</p>	<p>Agree to disagree-culture:</p> <p>Strong climate with shared ideas and explicit values regarding conflict reconciliation. The directors are (explicitly or implicitly) aware of the risk of a relation conflict in case of a cognitive conflict, and therefore have clear codes of conduct regarding conflicts and conflict prevention.</p>
LOW COHESION	<p>Pseudo cohesion-culture:</p> <p>Directors do not have a shared view of a situation: some of them may perceive a conflict and silence their assessment, whereas other may be acting from the idea that all is well. All directors behave as though all is well, but there is a silent conflict below the surface.</p>	<p>Open conflict-culture:</p> <p>Directors are aware of the conflict, although their perception of its intensity differs. Their views of the situation and the potential solution differ. Sub-groups share differing information. Personal and emotional information are not shared with other directors.</p>

