ESSAY THREE OF TEN

Written Rules, Unwritten Enforcement: a governance series

What Boardroom Silence Risks

written consensus, unwritten dissent

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> *Every experienced director has attended the boardroom that ended in unanimous approval and the corridor conversation that revealed unanimous disagreement. The room chose personal relations and peace over honesty and open discussion, wrapped in the artificial carefulness that spares everybody the discomfort of the real exchange, and the distance between the 2 conversations compounds until somebody pays it in full. This essay names the mechanism that produces the silence, prices what tolerating it costs, and asks what the chairman should do when he inherits a room in which naming has become expensive.*

The room and the corridor

Every board has 2 conversations. The formal one happens in the room and produces the minute; the honest one happens in the corridor and produces the strategy. In healthy institutions they converge, with the honest conversation arriving in the room a beat later and correcting the minute before it is signed. In drifting institutions they diverge permanently, with the room becoming the theatre where the corridor's decisions are ratified in language nobody remembers writing. The audit trail is impeccable; the substance has left the building. Every experienced director knows the exact moment in his career when he first noticed this, and typically the moment when he chose to stop noticing it, and this essay is written for the director who has not yet made either choice.

Calibrated silence and extraction silence

My last essay argued that retrospective enforcement is what separates a healthy institution from a decaying one, because it lets the referee wait for a natural stop in play before naming the foul. Healthy boards operate the same way: small corrections issued quietly and steadily, so the room absorbs them without breaking. This is calibrated silence, the discipline of choosing when to speak so that speaking retains its weight. Extraction silence is the same mechanism failing, and it looks like this: the whistle never eventually comes, and the small tolerated behaviour compounds past the point at which any single director can still name it without inheriting the accumulated weight of every director who did not. The 2 look identical from outside the room; only the compounding tells them apart.

The three forces

Three forces conspire against the honest word.

The first is career capital. Every director has watched the colleague who named the drift pay for it, quietly, over the 3 quarters during which his invitations to informal dinners tapered off. Modern corporate corridors have captured the calculation in the working aphorism that the best way to avoid errors is to do nothing; Keynes stated the same principle more elegantly in 1936, that it is better for reputation to fail conventionally than to succeed unconventionally. The mechanism is discreet, professional and effective, and by design leaves no memo.

The second is the social contract of the room. A functioning board depends on cooperation the way a jazz quartet depends on knowing when not to play, and the director who breaks the cooperation pays the visible cost while the compounding damage stays invisible for years. Jerry Harvey named the pattern in 1974 as the Abilene Paradox, after a family that drove 53 miles across a Texas afternoon for a dinner none of the 4 had wanted, each having assumed the others did. The Vatican understood the risk well enough to appoint a Promoter of the Faith at every canonisation from 1587 onwards, formally tasked with arguing against sainthood, until John Paul II reformed the process in 1983, after which he alone canonised more saints than his predecessors combined over the previous 5 centuries. Most Anglo-Saxon boards operate without an equivalent office.

The third is fiduciary asymmetry. The director who challenges carries personal reputational risk if the challenge proves misplaced; the director who stays quiet is only collectively liable if the drift eventually breaks, and by then the room has provided him with 8 others to share the exposure. The 2 positions look symmetrical on paper and are wildly asymmetric in practice, which is why the boards of Wirecard, Theranos and Wells Fargo all contained, at the moment of collapse, directors who could later explain in perfect detail why they had known and said nothing.

Each is individually rational. Together they explain why the honest word rarely arrives on time.

The silence tax

Every board pays this tax at every meeting. The healthy board pays a small tax weekly, in the form of the mildly awkward correction, the deliberately naïve question, and the request that a paragraph be redrafted before signature. The room absorbs the tax and stays solvent. The drifting board defers the tax, and defers again, until the compounding forces the payment into a form the room no longer controls: the regulator's letter, the auditor's qualification, the litigation filing, or the activist's open letter. At that point the tax is priced by strangers who have less reason to be gentle, and 3 decades of turnarounds have taught me that the involuntary payment lands, with uncanny consistency, at roughly 20 times the price the room could have negotiated 5 years earlier.

The chairman's job

His task is not to blow the whistle in every meeting, which would collapse the cooperation the room depends on. His task is to make retrospective naming so ordinary that the tax stays small. Alfred Sloan, chairing General Motors in the 1920s, is credited by Peter Drucker with adjourning a board once with the words "Gentlemen, I take it we are all in complete agreement on the decision here; then I propose we postpone further discussion until our next meeting, to give ourselves time to develop disagreement." Unanimity, to Sloan, was the sound of a board that had not yet done its work. The 6th-century Rule of Saint Benedict engineered the same principle from the opposite end, requiring that junior monks speak first at every council, on the ground that the Lord often reveals to the younger what is best, so seniority could not compress the room into silence. Both mechanisms serve one purpose, which is to make the honest word cheaper than the dishonest silence.

Where a chairman inherits a room in which naming has become expensive, he has one working move, and only one. He names a single small drift himself, deliberately and early, and prices the silence before the silence prices him. The drift he chooses matters less than the fact of the naming, because the room is reading, in that first quiet correction, the tax it will now be charged for tolerating what it tolerated last quarter for free. In the 90 seconds that follow, he will learn whether the room has understood the price signal, or whether he has just become the colleague whose dinner invitations begin, quietly, to tail off.

The question

Every director sitting on 3 or 4 boards keeps a private ledger of what he has not yet said. He knows, to the item, which drift on which board he has already priced and decided not to name, and the distance between that ledger and the room's minute is his own silence tax, compounding at the same rate as the institution's and typically to the same effect, because the drift he chose not to name last quarter is usually the drift he will fail to notice next year. The next essay steps outside the boardroom and applies the same accounting at family, community and national scale, because the discipline of naming, or the failure to learn it, follows a person through every table he will ever sit at, and every room he cannot name will eventually be named for him by strangers.