

Revisiting Ghoshal's views on the implications of bad management theory – a systems view of moral governance and managerial practice

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This paper revisits Ghoshal's views (2005, 1996) on the implications of bad management theory for managerial practice. In particular, it examines the persistence of assumptions underpinning moral governance and associated managerial practices in organizations, despite countervailing evidence of efficacy. Drawing on mini-case illustrations, and notions from systems thinking (Senge, 1993, 1999, 2010) and cognitive psychology (Tversky and Kahnemann, 1974), the paper develops a systems perspective that suggests how in some circumstances, cognitive bias rather than intention may explain a paradoxical persistence or adherence to ideology, ideology-based theory and to theory-informed practice.

1. Introduction

Given the nature of management studies as a social science, perhaps it is not unusual for water-cooler conversations of academics to involve discussion of whether a particular theory has run its course, is in need of refinement, has been superseded or even been demonstrated to be wrong or harmful. Given that McGregor's Theory X and Y (1960) perhaps encapsulates the inherent contingent or conditional nature of theory in the field of management, it is not surprising that writers such as Ghoshal and colleagues (2005, 1996) have found need to offer critique of those theories that are founded on a narrow contingent base of beliefs and assumptions regarded either as beyond question or too often accepted without appropriate challenge.

Ghoshal has drawn attention, in particular, to the often unquestioned nature of say, Transaction Cost Theory and Principal Agency Theory. He has done so, not just in relation to their impact on managerial practice, but, especially in relation to the latter theory, in its impact on individual and organizational behavior and outcomes. Given the nature of this work, what may be surprising to the practitioner world is that studies or critiques of the form undertaken by Ghoshal do not frequent the literature to the same extent as studies that seek to build new or propose incremental change to existing theory. In essence, Ghoshal's work seeks to illuminate notions of theory and practice, and the theory-practice nexus. Such work – given its questioning of underpinning ontological assumptions, and the consequential development of theory and theory-informed practice – has relevance across several domains. Indeed, such relevance resides not only in terms of its contribution to the academic fields of organizational and management studies or to theory-informed managerial practice *per se*. It has relevance also in terms of its contribution to the related design and evaluation of management education programmes that implicitly provide the advocacy for the theory-informed practices that pervade business, government and higher education spheres.

Ghoshal's portrayal of the *negative assumptions* that underpin Agency Theory has been referred to as the *gloomy vision* (Hirschman, 1970), and indeed as a persistent view that workers are ordinarily passive and resistant to the legitimate expectations of management and the organization (Heil et al., 2000). This view of beliefs, assumptions and consequential managerial practice, and organizational dysfunction, is reflected in Ghoshal's thesis that uncritical acceptance of an ideologically based *gloomy vision* of human nature has led to '*bad management theories ... destroying good management practices*'.

Related to such a critique, this paper draws together notions from systems thinking and cognitive psychology, linking the work of Senge (2010, 1999, 1993) and Tversky and Kahneman (1981, 1974), to better understand the seeming paradoxical and unjustified adherence to ideological beliefs, ideology-based theory and theory-based practice by those involved in promoting and managing change in organizations.

The paper builds on prior work (Davies, 2010) that has sought to provide a systems perspective on how ideologically inspired managerial beliefs and theory have impacted on processes of governance, managerial practice and employee behavior (Ghoshal, 2005, 1996). Using Agency Theory, as an illustrative example of theory reflecting *negative* or *pessimistic assumptions* about ... the behaviors of ... *both individuals and institutions*, the earlier work demonstrated how ideology-based managerial practice may beneficially change employee behavior and organizational outcomes in the short term, but may also create, or lead to a reversion to undesired behaviors and outcomes in the longer term.

This paper seeks to provide insight about how even such conflicting or counter-vailing outcomes may serve to reinforce not only the prevailing ideology/beliefs, but also ideology-based theory and managerial practice. The paper draws together findings from cognitive psychology, especially the work of Tversky and Kahneman (1974), Bazerman (1998, 1984), Russo and Schoemaker (1994), adopting a systems approach (Senge, 1993) to shed light on these matters.

In particular, the systems approach provides an illustration of how the persistence of ideological belief and ideology-based theory and practice may be a manifestation of the cognitive bias and framing effects described by Kahneman (2011), and Kahneman & Tversky (1982, 1981, 1979). In doing so, it also accommodates such findings within a broader systems framework. Following a brief commentary relating to the nature of ideology, the theory-practice nexus, cognitive bias and the confirmation bias, the paper proceeds with a discussion of related and illustrative mini-cases. Here, in seeking to illuminate and re-interpret the case situations that have been explored elsewhere (Davies, 2010, 2015), we draw on a systems approach that invokes the notions and conventions of qualitative systems dynamics to represent our case situations as Causal Loop Diagrams (CLDs) (Maani & Cavana, 2000; Sterman, 2000).

Like others (Senge, 1999, 1993; Sterman, 2000) who seek to avoid the excesses of reductionist thinking, Tsoukas (2016) has argued the need for what he calls conjunctive thinking, in seeking 'to make connections between diverse elements ... through making those analytical distinctions that will enable the joining up of concepts normally used in a compartmentalized manner.' We make those analytical distinctions by identifying sets of interdependent causal relationships and causal feedback loops that interact to generate often unanticipated system-

wide behaviors and effects. Such causal relationships and causal feedback loops also manifest as common systemic structures (Senge, 1999, 1993) when viewed as CLDs.

As such, the systems approach is likely to contribute to a more holistic understanding of the case situations, individual and organizational behaviors and systemic consequences. In particular, we seek to demonstrate how such *individual* behaviors and actions interact in complex ways over time, to contribute to what may be regarded as *systems* behaviors and consequences that may well have been unforeseen or unanticipated, and whose systemic causes or origins may have been overlooked or misunderstood.

In doing so, we illustrate the benefits of a systems approach that corresponds with Senge's and Sterman's advice to avoid reductionist thinking, and with Tsoukas' plea for conjunctive or joined-up thinking. Such benefits may include, for example, understanding how beliefs and perspectives that drive managerial behavior, initially conceptualized as *inputs* to the system, then contribute to wider systemic effects and system behaviors which may reinforce those beliefs, regardless of the nature of evidence available.

The paper first demonstrates how the protocols of qualitative systems dynamics can aid the development of perspectives and insights about the systemic features of the related frameworks of Kohlberg and Snell. It then attempts to show how the qualitative systems representations can be used to provide insights about how a moral governance system, embodying the negative assumptions underpinning McGregor's Theory X/Agency Theory, drives managerial practice and impacts not only individual and organizational behavior but also aspects of moral ethos and moral behavior within organizations. In addition, the systems representation draws attention to how those assumptions and managerial practices persist in the face of seeming countervailing evidence.

It also draws notice to how individual managerial actions or practices, based on specific beliefs - in this case, those that constitute McGregor's Theory X or Principal Agent theory - can lead to anticipated or desired outcomes in the short term that reinforce the perceived efficacy of, confidence in, and commitment to those practices. Furthermore, and by contrast, it also demonstrates how those same managerial practices may also induce other individual and systems behaviors in the longer term which interact to produce unanticipated and unwanted outcomes that, paradoxically, not only reinforce those same beliefs but also the commitment to those practices.

Specifically, we demonstrate how Theory X type negative managerial *perceptions of self-interested, lazy, opportunistic employee behavior* are diminished in the shorter term by managerial practices that lead to *employees aligning their behavior to organizational goals*. But then, how, in the longer term, growing employee *perceptions of poor treatment* leads to a passive aggressive *perfunctory compliance* that reinforces the same negative managerial perceptions of employees. Correspondingly, we demonstrate that increasing managerial commitment to the *nature of moral governance* as being rules and threats-based control, strengthens in the shorter term, when individuals *acquiesce* (Loop R1 in Figure 3A); **and** also strengthens in the longer term, if and when individuals engage in *perfunctory compliance* or express *overt dissent* (Loops R2, 3a and 3b in Figure 3B).

It would appear, therefore, that regardless of those managerial actions leading to desired outcomes in the short term, or undesired outcomes in the long term, commitment to prevailing managerial practice or actions is reinforced. If so, we assert that the seeming paradoxical adherence to prevailing beliefs or practice, despite contrasting evidence or circumstances, is redolent of an ideological stance! Likewise, we may presume that the ideology underpinning McGregor's Theory X can prevail despite contrasting evidence or circumstances!

2. Selective Literature

In this section, we provide a brief selective overview of relevant literature relating to Tversky and Kahneman's notions of cognitive bias and the persistence of belief (1981, 1974); issues in governance and moral governance; and to the related work of Snell (2000) and Kohlberg (1984a&b) on governance, organizational moral ethos and moral reasoning.

2.1 Cognitive Bias and Persistence of Belief

Over the last four decades, various researchers have built on the works of Kahneman and Tversky (1982, 1981, 1979, 1974) to show how the framing of problems may affect judgments in a variety of managerial decision-making situations. Bazerman (1984) has even demonstrated how an entire research paradigm and its associated beliefs, assumptions and theory – specifically Stoner's (1968, 1961) notions of *risky-shift* and group decision-making processes – may have been inappropriately impacted by the framing of the original research design. Whilst the persistence or resilience of the *risky-shift* paradigm in the face of often equivocal or disconfirming evidence may be attributed to a lack of awareness of the potential framing effects of construct items used to operationalize risk within Stoner's Choice Dilemma Questionnaire in his original work (1961), such adherence to existing beliefs, witting or not, is not uncommon. Where individuals share such common beliefs, it may sometimes be referred to as ideology (Oxford, 2016). However, adherence to, or the persistence of such beliefs is often, in itself, referred to as 'ideological' – with accompanying connotations of strong belief and/or an intentional or deliberate resistance to change in the face of seemingly overt disconfirming information.

Yet, the work of Kahneman and his colleague, Tversky, in surfacing cognitive biases and framing effects (1982, 1981, 1979, 1974) points to a possible alternative explanation that manifests as unwitting use of judgemental heuristics in human information processing. In particular, we note how the *confirmation bias* may manifest as the unwitting restriction of attention to existing beliefs; the unintentional or unconscious preferential treatment of evidence supporting existing beliefs; the unwitting search for confirmatory information; and/or 'just seeing what one is looking for' (Nickerson, 1998).

It is worth stating that Tversky and Kahneman (1974) differentiate between the *confirmation bias* as a cognitive bias that stems from the unwitting use of judgmental heuristics, and those other biases which can be attributed to motivational effects, unwitting or otherwise. As such, *confirmation bias* may be defined as arising from a tendency to bias in the perception of facts. This may occur where individuals are more attentive to new information if it supports their prior beliefs and less attentive if it does not, that is, an unconscious or unthinking selectivity in the acquisition and use of evidence (Runst, 2014). These latter effects may arise

from, say, the distortion of judgments by framing effects, about, for example, desired payoffs or unwanted penalties, or just wishful thinking or unbridled faith.

As such, we may postulate that ideology giving rise to managerial theory may also exhibit persistence or resilience, as a manifestation of the *confirmation bias*, even in the face of seeming contrary evidence (Tversky & Kahneman, 1974, 1981), or equivocal or ambiguous evidence (Runst, 2014; Rabin 1998, Nickerson 1998). Additionally, we may postulate that where managerial practice is driven by perceptions and beliefs that constitute a managerialist ideology, the presence of perceived confirming evidence for those ideological beliefs may also have an affirming impact on managerial practice. Relatedly, Corbett (2011) has not only referred to a passive resistance to change, in general, or adherence to existing managerial practice, in particular, as another form of cognitive bias termed as the organisational anchoring of practice - but also referred to the active or deliberate 'guarding against backsliding' reinforced by standardization of new processes and imposition of process controls (De Koning et al., 2006).

The paper continues with a brief selective outline of prior work related to governance and moral governance. It then seeks to demonstrate how, within the context of McGregor's Theory X and Y, and the related frameworks of Kohlberg (1984a&b) and Snell (2000), the protocols of qualitative systems dynamics can aid the development of perspectives and insights about the systemic links between forms of moral governance and behavior within organizations.

2.3 Issues in Governance and Moral Governance

2.3.1 Convergent and Complementary perspectives

In previous work, Davies (2002, 2001) has outlined a seeming convergence of issues in governance and moral governance, a convergence that appeared somewhat paradoxical given an extant diversity of views and conceptions of governance. Since then, others have similarly queried matters of convergence, for example, Bozec & Dia (2012) in relation to governance practices; Rossouw (2009) and Othman & Rahman (2011) in relation to the ethics of governance (International Charter, 2015). It is interesting that Bozec & Dia (2012) suggest that if corporate governance is about ethical practice and 'stems from the culture and mindset of management', as also implied by Ghoshal (2005), then 'corporate governance cannot be regulated by legislation alone.'

Over the last five decades, interest in corporate governance, in particular, has been catalyzed by considerable media attention given to poor company performance, corporate failure, inappropriate accounting/audit practices, excessive remuneration packages for senior managers and executive directors, insider trading, pension fund mismanagement etc (Davies, 2001; 2002: 58; Turnbull, 1997, 2002). In addition, the extent to which governance issues have pervaded society is exemplified by the behavior of organizations in the voluntary or non-profit sector, and by their perceptions of the role and importance of governance

In an interesting, but still relevant comparison to governance issues arising in sport, Hampel (1998: 9) contrasted the perspective of his work to that of earlier research by Cadbury (1993) and Greenbury (1995). He suggested that the latter's approach and guidelines 'concentrated largely on the prevention of abuse' in the corporate world, responding to 'things which were perceived to have gone wrong'. By contrast, he asserted that his pioneering work,

which appeared as the combined UK code on corporate governance (Parkinson & Kelly, 1999: 101), was equally concerned with the articulation of principles of corporate governance that would make a positive contribution to organizational life – principles that are now embedded within and reflect what we may refer to as moral governance.

Beer (1981, 1985), evoking notions of cybernetic and viable systems thinking, has specifically contended that for organs and processes of governance to be effective, it must be in the sense that they establish or contribute to the coherence of systemic identity and purpose(s). In turn, such identity and purpose should be projected, shared and accepted within and without the organization by both internal and external constituents or stakeholders. As a corollary, we note therefore that effective governance may not only encompass the development and promulgation of values that underpin an organization's purpose and activities, but also regulatory activities that promote the viability and sustainability of the organization and of the environment within which it operates.

Haack & Scherer (2014) suggest that the divergence between the ideal - logic and design - of such governance and regulatory systems and how they operate in practice, gives rise to conflicting critiques that are entwined with the assumptions underpinning managerial or regulator behaviors. For example, critics of the United Nations Global Compact (UNGC) who adopt a *strict father* model of transnational governance, suggest that 'the proper education of inherently bad business firms necessitates obedience, discipline and punishment'. By contrast, advocates of the UNGC follow a *nurturant parent* model, which prioritizes empathy, learning and nurturance to support the moral development of good business firms (Haack & Scherer, 2014).

These differences reflect, in a sense, assumptions about behavior that, as implied by Ghoshal (2005), are redolent of McGregor's Theory X and Y (1960). For example, Theory X assumptions reflect individuals as being *self-interested, opportunistic, lacking in motivation, untrustworthy, lazy* etc, and therefore have to be appropriately directed and monitored to conform – as with the *strict father* model of governance. By contrast Theory Y assumptions provide a different basis for managerial practice accepting that individuals can be *self-motivated, can be trusted, can work independently* with minimal direction, are *not inherently lazy* etc. – as with the *nurturant parent* model of governance. We suggest that such differences can also be described as representative of different assumptions underpinning the *nature of moral governance*, the *basis of moral authority* within an organization, and subsequent *moral actions* or *behavior* of individuals and groups.

Moral behavior has been explored elsewhere using Kohlberg's six-stage model of moral or ethical reasoning (Kohlberg, 1969, 1984a; Kohlberg & Candee, 1984); Snell's adapted Kohlbergian model (2000); Badaracco's frameworks examining moral responsibilities (2002, 1997; and also using the Lumpkin, Stoll and Beller model (1994) linking moral knowledge, moral values and moral reasoning. Here, after outlining Kohlberg's model relating to moral development in individuals, we comment on Snell's adapted model and its use in framing organizational moral behavior.

2.3.2 Governance, Moral Governance & Organizational Moral Ethos

First, we state how each of the key concepts or terms are to be considered. Westphal & Zajac (2013), Turnbull (2002, 1997), Davies (2001, 2002) and others, have provided an overview of alternative conceptualizations and models of governance which can be set alongside the frameworks of Snell and colleagues (Snell & Herndon, 2000; Snell & Tseng, 2001), to examine matters of *moral governance*, *organizational moral ethos* and its antecedents.

To do so, we provide an operational basis useful for discussing *moral ethos* and *moral governance*. For example, Jackall (1984) and Snell (1993) defined moral ethos as 'a set of force-fields' within organizations, comprising everyday norms, rules-in-use, social pressures, and quality of relationships, all of which impinge on members' understandings, judgements and decisions concerning good and bad, right and wrong. Elsewhere, moral ethos is seen as synonymous with moral or ethical climate, atmosphere, culture, that is, what constitutes shared member perceptions, assumptions and expectations about how everyday issues and ethical dilemmas are to be viewed and resolved (Snell, 2000: 265).

Here we may regard *formal moral governance* (FMG) as referring to those systems for determining, establishing, encouraging and embedding or enforcing ethical standards within an organization (Snell, 2000: 281; Snell & Tseng, 2002: 45). As such, the systems may emphasize control in the 'hard', arbitrary or coercive sense, or through oppressive ideology or imposed identity; obversely, they may suggest 'control' in the 'softer' sense of values-lead self-regulation expressed through open inquiry and dialogue, that is through participative structures (Collier & Esteban, 1999: 194). Consequently, the nature of FMG may be identified as having several dimensions. It may be characterized to the extent it is based on procedural justice and open dialogue rather than role or role-model identification; or based on coercion, codes of ethics or rules rather than laissez-faire attitudes.

However, just as the effectiveness of a governance system or code of practice may be impacted adversely by the absence of certain factors, including perceived meaningfulness or relevance, as well as normative coherence, it may be enhanced by other factors. For example, some comment that codes should reflect organizational and even wider system values; should have a positive intent, 'positive tone' and be based on McGregor's Theory Y assumptions that individuals can be *trusted*, can be *self-motivated* and *committed*, can exercise *self-control* and work with minimal supervision to benefit others and the organization. Others suggest that codes should be consistent in their application, and in reward or punishment - in order to have impact (Payne et al., 1997: 1732; Trevino and Youngblood, 1990; Donaldson, 1992: 80). As such, for some, the implication is that codes should provide a consistent guiding framework for individuals and groups to engage in ethical decision making, rather than evoke or prescribe a 'tick-box' response that removes opportunity for individuals to engage with organizational and wider systems values. Indeed, it is suggested that such codes should encourage individuals to act with integrity (Charkham 1994; Farrell & Farrell, 1998).

The following sub-section provides a brief overview of how perspectives on the moral behavior of individual actors may be explored using Kohlberg's (1984a, 1969) six-stage model of moral or ethical reasoning, before examining how Snell's Adapted Kohlbergian Model sheds light on aspects of moral governance within organizations.

2.3.3 Kohlberg, Snell, Moral Governance and Snell's Adapted Kohlbergian Model

Kohlberg's framework, as initially developed (1984a, 1969), facilitated the examination of moral judgement and the capacity for moral reasoning of individuals by conceptualizing a descriptive hierarchy of levels or stages of moral development, and by attempting to identify the level or capacity for moral reasoning that the individual has reached. Similarly, one can examine and develop a profile of the levels of moral reasoning-in-use by organizational entities, by using Snell's adaptation of the Kohlberg model.

Kohlberg presumed that Level Zero individuals cannot or do not engage in ethical reasoning. They 'act out ... gut emotions' without thought, impulsively and amorally. Snell (2000: 272) suggests that the remaining stages can be conceived as representing degrees of attempted 'goodness'. Levels One and Two are used to categorize individuals who respond to outside influences in a self-centred fashion. Level One captures an egocentric 'fearful, unquestioning deference to authority' - fear of retribution, obedience - but with no consideration of others. Level Two captures recognition of the self-interest of others, but only serving that interest to benefit oneself.

Levels Three and Four represent a morality based on conformity, and the mutual expectation of conformity, to 'socially-defined standards' that are given legitimization by significant or respected others, or by governing institutions. Whereas Level Three behavior manifests as an orientation to interpersonal, group or organizational approval, a disposition to loyalty and pleasing others, Level Four extends beyond being the 'loyal organization man,' to a conscience-embracing conformity in terms of fulfilling roles and obligations, and as commitment to law and order that enhances the wider social system. In the football system, for example, this may be seen as captured in the motto of FIFA, football's governing body - 'For the Good of the Game' - if not in their actual behavior.

Level Five morality extends to recognizing and valuing those various human rights, for example, freedom of speech, and notions of justice and welfare that contribute to the general good, and to promoting the 'greater good' of the wider community. However, Level Six morality embraces the validity and personal respect of universal human rights, and of universal principles of justice and welfare, without condition. In a sense, it involves meeting social responsibilities beyond legal and contractual duties (Snell, 2000: 272-27). Snell (2000) followed in the paths of others (Higgins & Gordon, 1985; Kohlberg & Candee, 1984; Logsdon & Yuthas, 1997) in attempting to translate Kohlberg's work to an organizational level of analysis. However, Snell's approach has differed from others, for example, Logsdon and Yuthas (1997), in a significant manner. Snell (2000: 276) does not seek to reify or personify the organization, asserting that organizations, in and of themselves, are not capable of moral judgement, and only reach a particular stage of moral development in a 'metaphorical' sense. He suggests that *organizational moral ethos* is better represented by a profile of moral reasoning-in-use across a wide spectrum of issues facing the organization, examined from the point of view of various stakeholders' (Snell, 2000: 286), rather than the single stage that is used to reflect any limiting capacity for moral development of individuals.

Kohlberg's framework, as modified by Snell to provide insights about moral reasoning, moral governance and *organizational moral ethos* (OME) in organizations, can help in

understanding *moral governance*, that is, how ethical 'standards' develop or are determined, enforced or embraced in those organizations. It can also help in understanding how a *basis for moral authority* emerges on a spectrum stretching from domination through to acceptance based on deferential, and then critical trust; how *socialization within organizations* impacts on those beliefs underpinning moral reasoning; and then how individual and 'corporate' perspectives and outlooks and actions are effected.

First, however, we provide an operational distinction between the nature of *authority*, in general, and *moral authority*, in particular, before offering a systems perspective and representation of Snell's adapted Kohlbergian model. We acknowledge different types of authority: *legal* - arising from a constitutional, legislated or legal basis; *expert* - arising from knowledge, skill; *reputational* - arising from position, status, *mana*, an ability to act; and *power* - arising from persuasiveness, force, fear. In addition, we recognize the notion of *authority* in as much as it may be used, on the one hand, to restrict, prevent, coerce, punish or sanction, or it may be used to enable, enhance, facilitate or provide approval.

By contrast, and noting the correspondence to Kohlberg's categories or levels of moral reasoning, *moral authority* may be conceptualized as deriving from any of the following bases:

1. the power to threaten punishment; ... an ability to dominate
2. the prerogative to impose rules, sanctions, targets, incentives etc
3. being kind, showing goodwill and benevolence
- 3/4. respecting members' sense of occupational pride
4. improving the environments in which the organization thrives
5. policies enhancing the organization's beneficial social and environmental impact
6. enhancing insights and sensitivity to various moral issues and perspectives; ... a development of critical trust.

The nature of *formal moral governance* (FMG) will influence and be influenced by the *basis of moral authority* (BMA) in the organization. In the simplest terms, we may define the BMA as reflecting the nature of power to define or attribute what is right or wrong, good or bad, what is acceptable as behavior or outcomes, or not. As such, it may reflect the politics of positional legitimacy, hierarchical status, authority and an ability to coerce, dominate, manipulate, disempower, engage in patronage, sponsorship, favoritism and nepotism, or control of access to information etc. It may also reflect expertise, charisma, network maintenance, gatekeeper status, tacit knowledge, rewards; and also reflect notions of deferential or critical trust and faith.

Consequently, we may identify the nature of feedback loops operating whereby the emergence of critical trust, for example, promotes confidence in open dialogue about ethical values and standards, leading to the acceptance of standards that constitute the organization's evolving system of *moral governance*. Involvement in these participative aspects of governance then reinforces what may have been the critical trust basis of *moral authority*, and what we refer to, colloquially, as a virtuous cycle, continues - until that trust is breached! (Stoker, 1998: 451-455).

How organizational members perceive and understand the signals and values implicit in organizational action and behavior will be influenced by what Snell (2000: 282) refers to as *deep*,

implicit socialization (DIS). It may manifest itself through a 'hidden curriculum' of controls, rewards, mentoring, role-modeling and implicit story-telling. It may help individuals understand the balance between goal and performance orientation – between ends and means; the importance of mimetic behavior, cloning - mirroring the behaviors and values of the powerful; and recognizing a need for critical self-reflection, independence & confidence in exercising judgment.

Organizational members may learn of differences between espoused values and actual values; they may become aware of codes of practice/conduct not being enforced; of unpunished violations of the code; of the blind-eye being turned towards transgressions; or of moral muteness – the unwillingness to speak on ethical matters, or reluctance to make a moral stand (Menzel, 1999). Such differences between what constitutes *formal moral governance* and what constitutes the social reality of the organization, reflect the ambiguity in *organizational moral ethos*. *De facto* morality can then be conceptualized as a normative structure that represents the nexus of official/formal and informal values, and of assumptions and expectations about day-to-day moral conduct.

Drawing parallels with Korac-Kakabadse et al.'s comment (2001: 24) that one role of corporate governance involves understanding and addressing the interests of various stakeholders and constituencies, we note that Snell (2000: 283-286) and Snell & Tseng (2002: 454) seek to include stakeholders within the system of influence for understanding the nature of *organizational moral ethos* (OME). Snell suggests that stakeholders and stakeholder groups can evoke different levels of moral reasoning, in terms of how the needs and moral claims of those various stakeholder groups are perceived passively, viewed actively and cared for in diverse ways within the organization.

As suggested above, embedded in the Kohlbergian model are beliefs, values and assumptions that underpin moral reasoning. Such beliefs can evolve through different socialization processes impacting on one's capacity for moral reasoning and how that reasoning evolves into principles of moral and ethical behavior in broadening contexts. Kohlberg suggests that such principles may then guide the individual away from egocentric and individualistic behavior, towards a consideration of justice and welfare for significant others and societal groups, and then to an embracing of universal ethical ideals and principles.

Given this base, the paper now seeks to draw selective parallels between the evolution of an organization's approach to *formal moral governance*; what forms the *basis of its moral authority*; the *embedded socialization processes* involved, for example, in the development/*adoption of beliefs and values* that underpin moral reasoning and *moral action* in organizations; and the systemic nature of governance and *moral governance*.

3 Developing a Systems Perspective

In this section, we explore the usefulness of the representational protocols of qualitative systems dynamics, in particular, causal loop diagrams (CLDs), in understanding the systemic relationships that impact governance and moral governance, and the systemic influences that impact on individual and organizational behavior.

3.1 A CLD Systems Representation of Snell's adapted Kohlbergian model

In Figure 1, we seek to capture the generic sense of Snell's adapted Kohlbergian model related to organizational moral ethos.

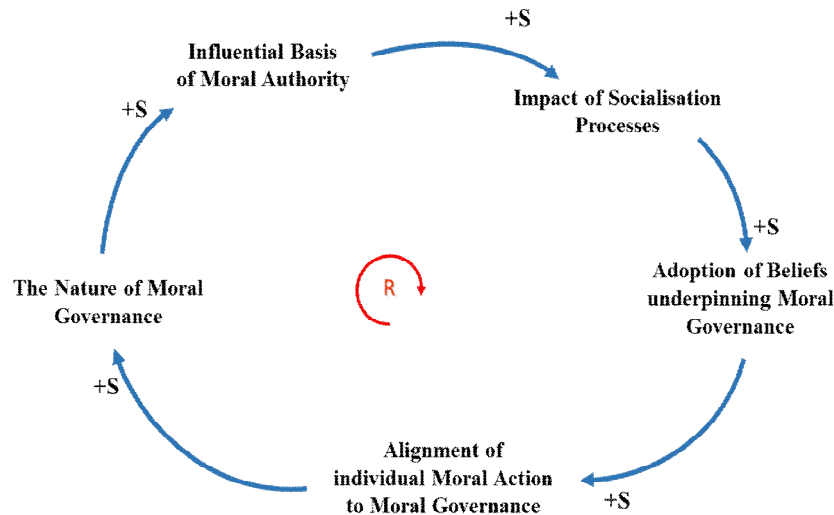


Figure 1: CLD Generic Systems Representation of Snell's adapted Kohlberg's Model

Note: The cause effect links in Figure 1 are denoted by arrows. An arrow annotated with a '+S' indicates that 'if the cause increases, the effect increases *above what it would otherwise have been*'. A negative arrow with a '-O' indicates that 'if the cause increases, the effect decreases *below what it would otherwise have been*'.

In doing so, we adopt an holistic approach, following the lead of Senge (1999), Sterman (2000) and Tsoukas' (2016). The CLD of Figure 1 exemplifies this approach.

We note an interpretative narrative for the CLD as:

... the **more affirming** the nature of moral governance, the **greater** the influential basis of moral authority, thus **heightening** the impact of socialization processes, and then, in turn, **strengthening** the adoption of beliefs underpinning moral governance, **furthering** the alignment of individual moral action to moral governance, and **additionally affirming** the very nature of moral governance ... that we started with! ie a virtuous reinforcing loop R.

Reinforcing
Loop
R

This CLD representation reflects what is described as a *reinforcing feedback* Loop R - shown here as an implied *virtuous cycle* - good things get better! The danger is that if any variable in the loop becomes negative, in the sense, for example, that *the influential basis of moral authority* lessens, as a consequence of some event or force exogenous to the loop, then the *virtuous cycle* can become a *vicious cycle*.

We now develop a similar systems representation to consider the impact of authority and moral authority on individual moral reasoning and behavior in a sport-related caselet. In particular, Figure 2 overlays the prior generic representation with Level 5, post-conventional *moral reasoning* mirroring a *stewardship* that similarly reflects an acceptance of wider systems responsibilities.

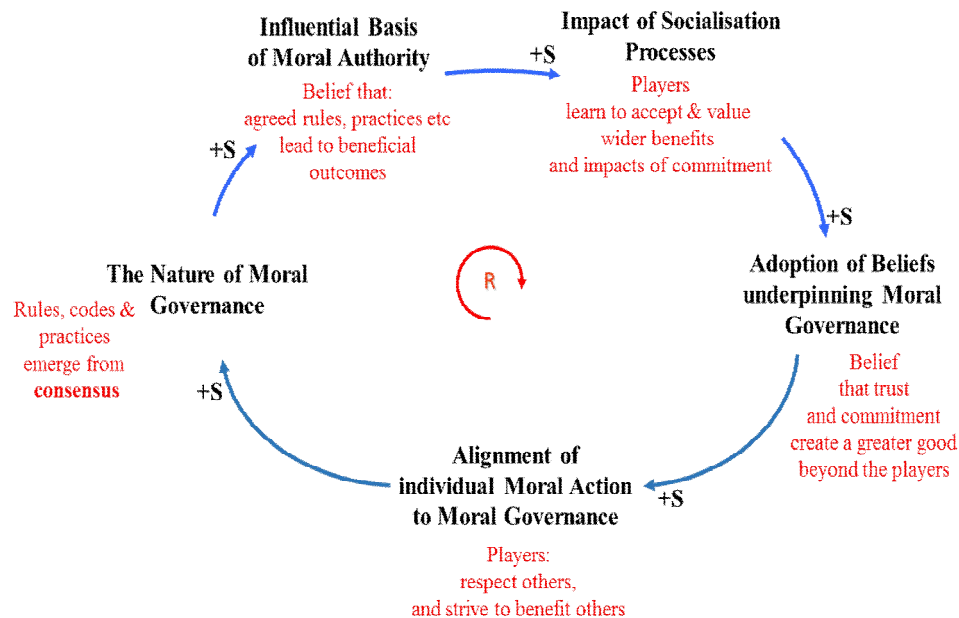


Figure 2: Illustrative CLD Representation of Snell's Adapted Kohlbergian Model Applied to Moral Ethos for Level 5, post-conventional *Moral Reasoning*

The mini-case or caselet relates to the manner in which a sports team, such as the New Zealand All Blacks, the team with the best win percentage in the history of sport (Johnson, 2014) may create and pledge:

... a **high** level of consensus and commitment to its own internal *code of practice/rules*, engendering a **strongly-held** belief that such agreed rules will lead to *beneficial outcomes* whose realization will engender even **greater acceptance and recognition of the benefits and impact of their commitment**, further **strengthening** the belief that trust and commitment create a greater good beyond the individual players, **boosting** players' resolve to benefit others, and further **affirming** commitment to the code of practice/rules-in-use ... that we started with! ie a virtuous reinforcing loop R

Reinforcing
Loop
R

On the other hand, if the *nature of moral governance* reflects or is based on Theory X assumptions (McGregor, 1960) that players/workers are *self-interested, opportunistic, cannot be trusted, are lazy* etc, then we see the corresponding CLD systems representation unfolding as in Figure 3A, and representing Level 1, pre-conventional *moral reasoning*.

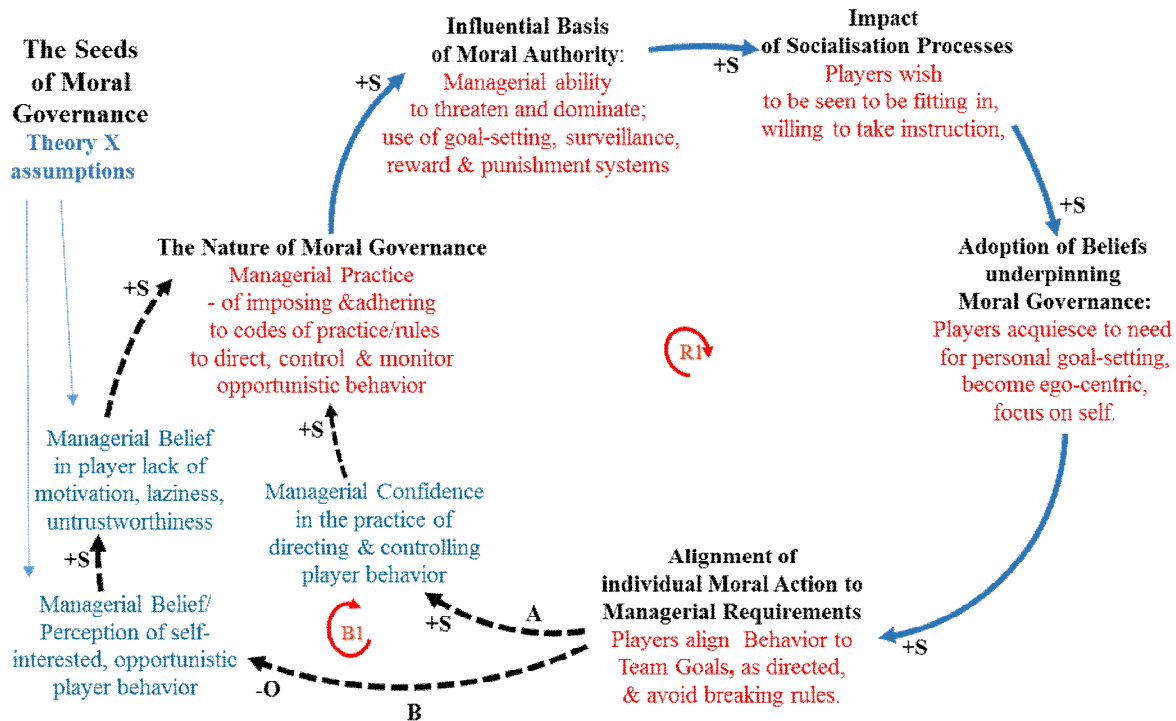


Figure 3A: Partial CLD Representation of Snell’s Adapted Kohlbergian Model Applied to Moral Ethos for Level 1, pre-conventional *Moral Reasoning*

Our interpretive narrative for Figure 3A, Loop R1, incorporating Theory X assumptions as the *seeds of moral governance*, and emphasising Causal Link A, would be:

... the more **strongly held** the belief/perception of employees being self-interested, opportunistic etc, the **greater** the managerial belief that players lack motivation, lack of trustworthiness, laziness etc,

... the **stricter** the adherence by team management to pre-determined codes of practice/rules-in-use, manifesting specific threats and sanctions, the **more potent** the managerial ability to threaten and dominate, leading to **bigger** efforts by players to be seen to agree, to fit in etc, **further contributing** to player readiness to acquiesce to specific demands, to act as directed etc., and thus **further affirming** confidence in the efficacy and managerial practice of directing and controlling behavior. and **further** embedding the practice of embedding and adhering to pre-determined codes of practice, rules etc.

A similar narrative for Figure 3A, Loop B1, again incorporating Theory X assumptions as the *seeds of moral governance*, emphasising Causal Link B, would be:

... the more **strongly held** the belief/perception of employees being self-interested, opportunistic etc, the **greater** the managerial belief that players lack motivation, lack of trustworthiness, laziness etc,

... the **stricter** the adherence by team management to pre-determined codes of

Seeds of Moral Governance

Reinforcing Loop R1

Seeds of Moral Governance

practice/rules-in-use, manifesting specific threats and sanctions, the more potent the managerial ability to threaten and dominate, leading to bigger efforts by players to be seen to agree, to fit in etc, further contributing to player readiness to acquiesce to specific demands, and then to act as directed etc., thus weakening the belief/perception of employees being self-interested, opportunistic etc, the lesser the managerial belief that players lack motivation, lack of trustworthiness, laziness etc, ...

Balancing
Loop
B1

Thus we have countervailing effects/beliefs, stemming from Causal Links A & B – one, A, reinforcing confidence in, and then embedding managerial practice; and the other, B, leading to a weakening of the negative Theory X assumptions, and questioning of managerial practice. Here, we suggest, as would Runst (2014), that the initial framing of Theory X beliefs would result in Causal Link A, and Causal Loop R1, dominating over Causal Link B, and Causal Loop B1. Consequently, given the managerial scenario being framed in terms of Theory X, the alignment of employee behavior to organizational goals, that is, their readiness to acquiesce to specific demands, to act as directed etc., would have more unwitting influence as confirmatory evidence of the efficacy of preferred erstwhile managerial practice, than it would have as possible disconfirming evidence of the Theory X negative assumptions about employees.

Therefore, we draw attention to Causal Link A as an alternative manifestation of the confirmation bias, in as much as worker preparedness to follow instructions and act as directed, may be judged as confirmatory evidence that the decision to impose a managerial practice of prescription and controls was appropriate and effective. Therefore, the managerial commitment to, and the belief in the efficacy of that managerial practice, is reinforced.

This manifestation of the confirmation bias, shown in Figure 3A as the Causal Link A, thus weighs more heavily than the same acquiescent behavior as countervailing or disconfirming evidence of those Theory X beliefs of self-interested, opportunistic employees, also shown in Figure 3A as the Causal Link B.

However, the seeming initial readiness to acquiesce to specific demands, to act as directed etc., that is reflected in Loop R1 (of Figure 3A), stemming from ... the managerial ability to threaten and dominate ... may also be supplanted in the medium and longer term by the growing influence of the reinforcing Loop R2 in Figure 3B, narrated as:

... **growing** player/employee perceptions of not being trusted, **adversely** impacting on intrinsic motivation, **inducing** likely **negative** reactions or modes of resistance that may include overt dissent, or what Ghoshal terms *perfunctory compliance*, either of which behaviors would likely **strengthen** those managerial Theory X assumptions that players/employees are self-interested, opportunistic, cannot be trusted, are lazy etc.

Reinforcing
Loop
R2

- thus reinforcing what may be termed an unanticipated vicious cycle of beliefs, actions and inappropriate behaviors – that is, not only reinforcing the negative Theory X assumptions, but also reinforcing managerial commitment to the nature of governance as being rule-based and threats-based control.

Although Tversky and Kahneman's notions of framing effects and cognitive biases (1981, 1974) are often invoked separately, Runst (2014) has conceptualised such a link between

framing, framing effects and the *confirmation bias* which may be used here to rationalise disparate responses to perceptions of player/employee behavior.

In support of this view, we note, as shown in Figure 3B relating to Causal Link C, that if managerial beliefs are initially framed in terms of the *self-interested nature and unreliability of players/employees*, ie Theory X, then players/employees *going through the motions*, Ghoshal's so called *perfunctory compliance*, will be interpreted as confirmatory evidence of those prior perceived Theory X self-interested behaviors, in particular, and poor player/employee attitudes, in general.

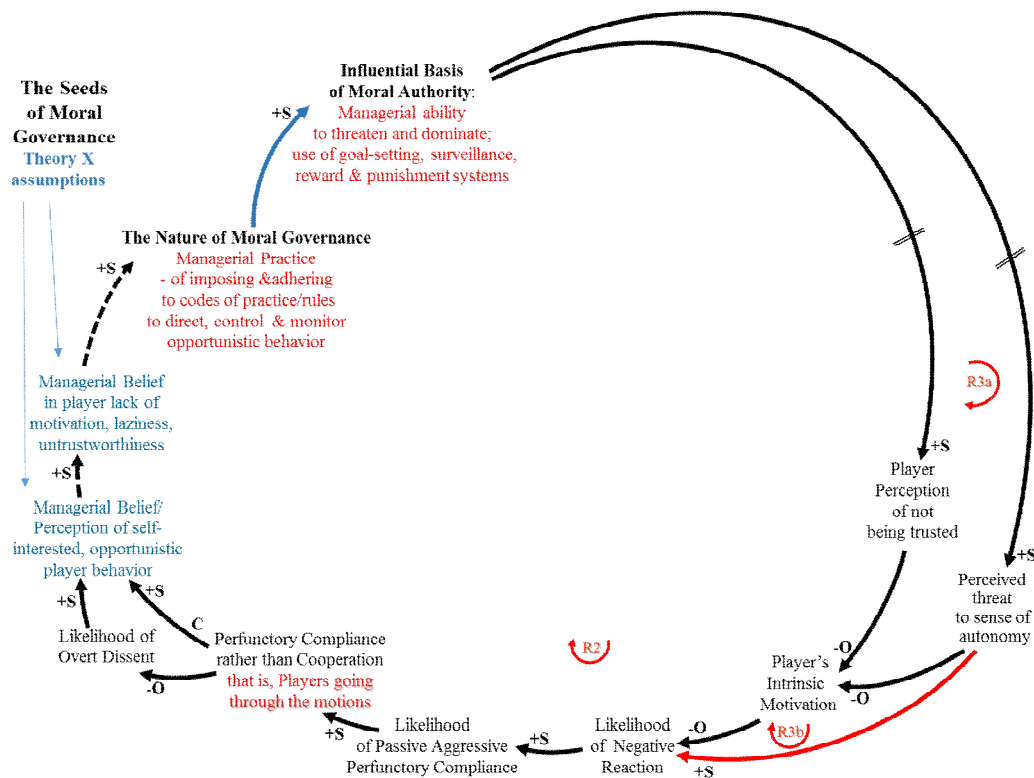


Figure 3B: Partial CLD Representation of Snell's Adapted Kohlbergian Model Applied to Moral Ethos for Level 1, pre-conventional *Moral Reasoning*

As such, the Theory X managerial beliefs and behaviors, will shift even more towards a greater commitment to *the managerial practice of imposing/embedding and adhering to codes of practice, rules*, and to prescribing and directing the behaviors of those 'self-interested' workers – as evidenced by the reinforcing loop R2, and reinforcing loops R3a and R3b.

However, as implied in Figure 3A, if players do not *align their behavior with organisational goals*, it will be seen as providing confirmatory evidence of prior managerial Theory X beliefs – via Causal Link B. By contrast, via Causal Link A, if players do *align their behavior with organisational goals*, it will be seen as providing confirmatory evidence of prior managerial belief

in the efficacy of the chosen managerial practice that led to that alignment – rather than as or disconfirming evidence of those prior Theory X beliefs of self-interested, opportunistic employees – via Causal Link B.

Where managers manifest, by contrast, Theory Y beliefs, we note that those managers will not necessarily interpret the *perfunctory compliance* as evidence of self-interested worker behavior, and/or of the need for close monitoring and control – but perhaps as evidence that their erstwhile managerial behaviors, *per se*, may be inappropriate.

As indicated by Runst (2014), these interpretations support an explanation that the psychological phenomenon of the *confirmation bias* will likely prevail where there are strong prior beliefs, acting perhaps as an ideological ‘filter’ through which evidence is interpreted (Taber & Lodge, 2006, cited in Runst, 2014; Nickerson 1998; Rabin 1998).

In particular, we have shown, as in Figure 3A, how the Theory X assumption that *individuals are self-serving and opportunistic*, **reinforces** both the belief that *individuals cannot be trusted*, and a belief in the need for *directing and controlling of individual behavior*, each of which beliefs impact and underpin the *nature of moral governance*, so that in Loop R1:

... the **stricter** the adherence by team management to *pre-determined codes of practice/rules-in-use*, manifesting *specific threats and sanctions*, the **more potent** the managerial ability to threaten and dominate, leading to **bigger** efforts by individuals to be seen to agree, to fit in etc, **further affirming** managerial confidence in the efficacy and managerial practice of *directing and controlling behavior*.

Reinforcing
Loop
R1

However, the seeming initial *acquiescence* that is reflected in Loop R1 (of Figure 3A), stemming from ... *the managerial ability to threaten and dominate* ... may be supplanted in the medium and longer term by the growing influence of Loop R2 (of Figure 3B), narrated as:

... **growing** *individual perceptions of not being trusted*, **adversely** impacting on *intrinsic motivation*, **inducing** likely **negative** reactions or modes of resistance that may include *overt dissent*, or what Ghoshal terms *perfunctory compliance*, ... either of which behaviors would likely ... **strengthen** those managerial Theory X assumptions that players are *self-interested, opportunistic, cannot be trusted, are lazy* etc.

Reinforcing
Loop
R2

... and thus reinforcing what may be termed an unanticipated *vicious cycle* of beliefs, actions and inappropriate behaviors – but especially reinforcing managerial commitment to the *nature of governance* as being coercive, rules and threats-based control.

In addition, for Loops R3a and R3b (of Figure 3B), we note that:

Loop R3a ... **enhanced** *perceptions of threats to sense of autonomy*, then **adversely** impacting *intrinsic motivation*, and **inducing** likely **negative** reactions or modes of resistance ... that may lead to *overt dissent* ...

Loop R3b ... **enhanced** *perceptions of threats to sense of autonomy*, **inducing** likely **negative** reactions or modes of resistance... that may lead to *overt dissent* ...

Reinforcing
Loops
R3a
&
R3b

- both contribute to the same *vicious cycles* of inappropriate actions, behaviors and beliefs.

The complete CLD, shown in Figure 4, demonstrates the systemic complexity inherent in a seemingly straightforward situation. Such complexity not only arises because of the multiple causal entities that impact on a single variable, as with the causal entities impacting on *managerial belief/perceptions of self-interested opportunistic behavior*. Indeed, the complexity not only arises either from a single causal entity effecting several other variables; but also from the interaction and mutual dependencies amongst causal loops.

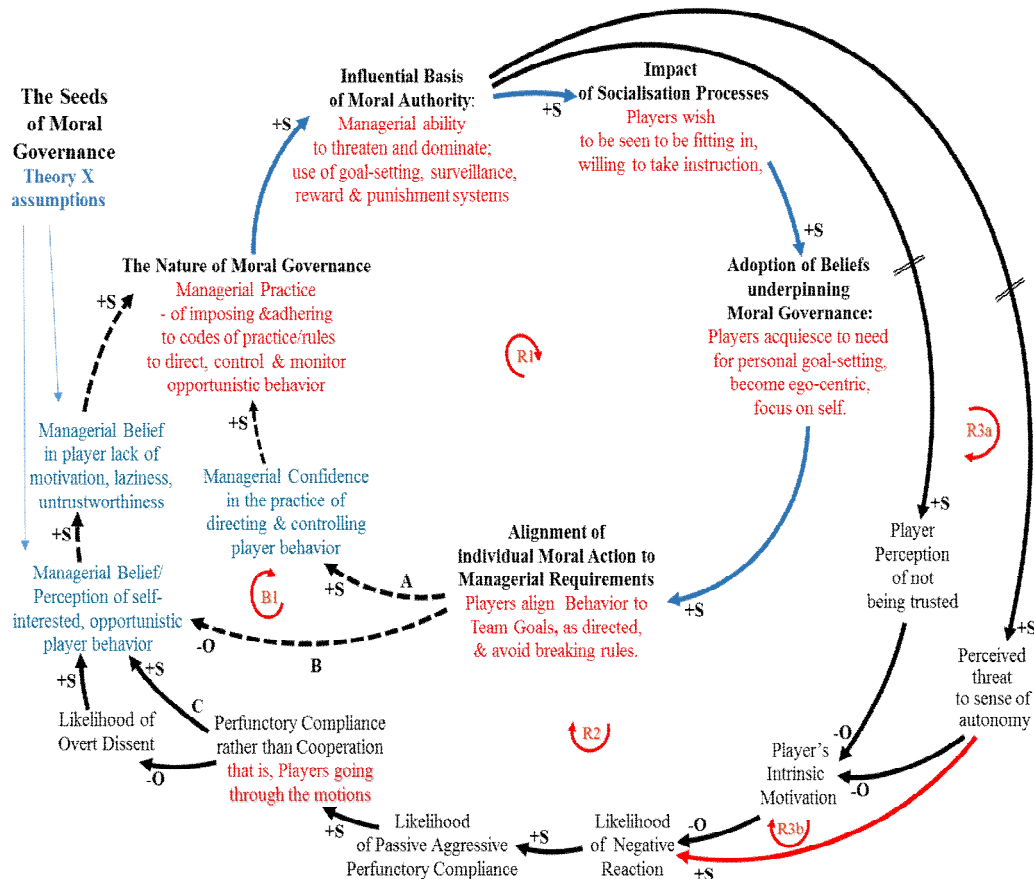


Figure 4: Comprehensive CLD Representation of Snell's Adapted Kohlbergian Model Applied to Moral Ethos for Level 1, pre-conventional *Moral Reasoning*

Overall, we note from this analysis, the seemingly paradoxical situation of how individual managerial actions or behaviors, based on specific beliefs (say those underpinning Theory X), can lead to anticipated or desired outcomes in the short term and thus reinforce those same beliefs (Loop R1). We also note that they may also induce other individual and systems behaviors in the longer term that interact to produce unanticipated and unwanted outcomes, whilst still reinforcing those same beliefs (Loops R2, 3a and 3b).

Specifically, we may state that an increasing managerial commitment to the *nature of*

moral governance: embodying rules and coercive threats-based control, may not only grow stronger in the shorter term when players *acquiesce* (Loop R1) and comply with instructions, as required – because such rules and control appear to be effective! Indeed, the managerial commitment may also grow stronger in the longer term, if and when individuals are seen ‘perversely’ to engage in *perfunctory compliance* or express *overt dissent* (Loops R2, 3a and 3b), as Theory X assumptions would suggest, and therefore reinforcing the need for managerial direction. If so, we may presume that the set of beliefs or ideology giving rise to Theory X can prevail despite contrasting evidence or circumstances!

In addition, we also note how the same reinforcing loops (R1, R2, R3a and R3b) can play out as *virtuous* or *vicious* cycles, depending on the initial or changing values of critical variables (as in Figure 4). As such, we remark that, in general, the systems view highlights the complexity and time-related dynamics of such relationships, especially those feedback relationships that play-out over time, often with time-lagged or delayed consequences.

4. Discussion and Conclusions

In this paper, we have examined matters that share the characteristics of wicked problems, those that are difficult to define, that are fluid, unstable, and often subject to unanticipated and unintended consequences (Ackoff, 1974; Ritchey, 2011). In particular, we have looked at the theory-practice nexus in assessing how theory underpinned by managerial beliefs and ideology impacts managerial practice in the context and process of initiating and maintaining change.

Whilst Kull et al. (2012) have used and developed a systems perspective to examine how cooperative and organizational cultural values may influence the success of quality initiatives, this paper has examined how managerial practices and initiatives may continue unchanged in the face of evidence of unexpected or unwanted performance and adverse impact on organizational values and culture. The multi-methodological approach taken here is redolent of Boyer’s scholarship of integration (1970) in its attempt to make connection across the disciplines of systems thinking and cognitive psychology; and in doing so, seeking to integrate and develop new insight from prior work, and creating a more comprehensive understanding of existing phenomena.

Indeed, like others (Senge, 1999; Sterman, 2000), we have sought to avoid the excesses of reductionist thinking, and to make those connections through identifying those analytical distinctions that enable the ‘joining up’ of concepts normally used in a ‘compartmentalized manner’ (Tsoukas, 2016). Mintzberg (1979) has referred to such theory building as requiring a ‘rich knowledge’ that only qualitative approaches can provide. We suggest that the approach, adopted here, of qualitative systems dynamics, and its associated causal loop diagrams (CLDs), has enabled us to reveal that ‘rich knowledge’ as sets of relationships, mutual dependencies and feedback mechanisms. We have done so in a way that allows for plausible explanation manifest as a coherent framework or theory, rather than as a discrete series of links each treated as an individual relationship to be subject to quantitative hypothesis-testing in isolation (Sonali & Corley, 2006). Indeed, we note, in particular, the usefulness of CLDs in portraying and

understanding the systemic relationships that impact governance and *moral governance*, and then also, the systemic influences that impact on individual and organizational behavior.

Additionally, we have attempted to make sense of the seeming paradox of ideological adherence to erstwhile managerial theory, namely Theory X & Y and Agency Theory, and also to associated theory-informed managerial practices, employing notions of cognitive psychology and systems thinking. Specifically, we have used a systems lens to offer a plausible interpretation of the paradoxical adherence to ideology, ideology-based theory and to theory-informed practice, as affirming and unwitting manifestations of the *confirmation bias* surfaced by Tversky and Kahneman (1974).

As such, the systems approach adopted here, and the associated CLD representations of qualitative systems dynamics, stands to be judged in terms of whether it provides a coherent and integrated whole, offering plausible insight about, and a deeper, rigorous understanding of, the phenomena under scrutiny (Mintzberg, 1979).

Further research could explore these matters not only in respect of other phenomena and challenges common to management in academia, business, government and the third sector, but in relation to the efficacy of a multi-methodological approach to understanding such phenomena.

In this paper, we have looked at the theory-practice nexus in assessing how theory underpinned by managerial beliefs and ideology impacts managerial practice in the context and process of initiating and maintaining change. A similar approach could be beneficially extended to the context and process of understanding, responding to, and managing rapid and/or unanticipated environmental change. Indeed, such research would seek to have relevance not just for the knowledge creation communities of, say, business school academia, but subsequently, for the development of management education *per se*, and consequently, the development of effective theory-informed managerial practice within the rapidly changing landscapes of the business, government and education sectors.

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