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The Functions of the Executive at 75: An Invitation to Reconsider a Timeless Classic

Paul C. Godfrey[1] and Joseph T. Mahoney[2]

Abstract

The year 2013 marks the 75th anniversary of the publication of Chester I. Barnard's classic, *The Functions of the Executive*, a groundbreaking contribution to management theory. We maintain that Barnard's work provides a valuable perspective on the causes and potential solutions to challenges facing capitalism, business, and management consequent to the scandals and financial crises of the early 21st century. We believe Barnard would see a systemic failure of the moral dimension of organization as a driver of these crises, and that management theory and practice need to focus on both the science and the aesthetics of management. We look back on The Functions and provide a review of key elements of Barnard's theory of organization. We then look forward from The Functions and see unique insights and solutions into the ongoing challenges of managerial morality.

Keywords

management history, stakeholder theory, strategy

Introduction

The year 2013 marks the diamond jubilee (75th Anniversary) of the publication of Chester I. Barnard's *The Functions of the Executive*,[1] perhaps, the 20th century's most influential book on organization and leadership (Bedeian & Wren, 2001; Gabor, 2000; Gabor & Mahoney, 2013). We submit that Barnard's classic, written in the midst of the Great Depression, has relevance for current issues facing managers and management scholars and should become more salient in our collective consciousness and work. Barnard's central message of the foundational role of morality in the effective practice of management—indeed, moral work is the hallmark of the executive function—makes the book influential and significant for the practice and study of management today. We invite management scholars to re-read *The Functions*. We anticipate that they will find useful insights into their own work, and we maintain that Barnard's theoretical perspective on the nature of organization and executive leadership informs today's most important issues. We illustrate Barnard's timely contribution to our understanding of the causes and consequences of a seemingly continuous string of crises plaguing business.[2] Barnard's unique view on executive morality and responsibility can at least inform, and perhaps transform, current debates concerning the legitimacy of formal organizations and capitalist markets.

The apparent causes of these crises—and anticipated remedies—fall into two broad categories. Some see the crises as having been precipitated by *technical* failures in *organizational* management and governance (Sun, Stewart, & Pollard, 2011). Former Federal Reserve Board of Governors chairman Alan Greenspan (2008) referred to the financial crisis at the time as a "one in a century credit tsunami" but would later revise that assessment and argue that the financial meltdown "is likely to be viewed, in retrospect, as the most virulent global financial crisis ever" (Greenspan, 2010). Greenspan (2008: 3) maintained that the cause of the crisis was primarily technical:

> It was the failure to properly price such risky assets that precipitated the crisis. In recent decades, a vast risk management and pricing system has evolved, combining the best insights of mathematicians and finance experts supported by major advances in computer and communications technology. A Nobel Prize was awarded for the discovery of the pricing model that underpins much of the advance in derivatives markets. This modern risk management paradigm held sway for decades. The whole intellectual edifice, however, collapsed because the data inputted into the risk management models generally covered only the past two decades, a period of (irrational) euphoria.

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Others see these crises as *individual moral* failures, highlighted by the likes of Ken Lay and Jeff Skilling of Enron (McLean & Elkind, 2003). Individuals with enormous power and resources under their control, but with poorly developed internal moral compasses, lead their organizations to ever-increasing levels of narcissistic and sociopathic behavior, all in the name of increased economic returns (Stout, 2012). A remedy for the organizational and technical malady resides in business and public policies and laws such as Sarbanes–Oxley (Soxlaw.com, 2013) that close loopholes, encourage transparency in transactions, and insure that past causes will not precipitate future crises. Individual moral failures require increased enforcement, stiffer prison sentences, and perhaps, a number of chilling business case studies that highlight the personal peril of risky behaviors. Business ethics education seems largely targeted toward remediating individual moral lapses (see, for example, Ortenblad, Koris, Farquharson, & Hsu, 2013).

Our reading of Barnard suggests a third, deeper cause of such crises: a *moral* failure of *organizations*. The organizational roots of the problem stem from the central and critical role that organizations play in larger cooperative systems of human activity; organizations enable individuals to collaborate and combine their efforts to respond to and shape an ever-changing and complex external environment. The moral dimension follows from Barnard's view of the inherently moral nature and purposes of complex, formal organizations. The first section of our article looks back at *The Functions* to explain and justify these claims in greater detail. The second section draws upon these notions to suggest a series of forward-looking actions for practitioners, management educators, and researchers to move business away from negative scandal and toward the positive development of individuals, communities, and societies at large.

The Deep Structure of *the Functions*

Turning attention back to *The Functions* allows us to pause and appreciate the depth and breadth of Barnard's thinking and early contribution to Organization Theory, Institutional Theory, and Strategic Management. The book represents one warp and woof on which ensuing scholars have woven sophisticated theoretical tapestries. Nobel Laureate Herbert Simon (1947), of the "Carnegie School" of Management, first identified Barnard's intellectual impact: "*The Functions of the Executive* exerted a major influence on my thinking about administration" (p. xiii). Kenneth Andrews (1968) maintained that "*The Functions of the Executive* remains today, as it has been since its publication, the most thought-provoking book on organization and management ever written by a practicing executive" (p. xxi). Recent Nobel Laureate Oliver Williamson (1995) stated that "Barnard inspired some of the very best work in organization theory that followed" (p. 5), and noted organizational sociologist Dick Scott suggested that

> One can list on the fingers of one hand the truly influential organizational scholars working prior to 1950. They include: Max Weber, Frederick Winslow Taylor, Henri Fayol, Elton Mayo, and Chester I Barnard. Of these, the two paying most attention to the sociological aspects of organizations were Weber and Barnard. (E. O'Connor, personal communication, 2010, 18 May)

Barnard's published corpus totals 22 pieces, listed in the appendix, as well as a set of unpublished notes that O'Connor (2012) used as the basis of a new treatment on Barnard as a pioneer of management theory. *The Functions*,[3] Barnard's Magnum Opus, sets forth a systems theory of organization for the emerging modern age, an age dominated by large, managerially controlled organizations (Berle & Means, 1932), vastly different than the ones theorized in classical economics (Smith, 1776/1965) and emerging as neoclassical theory ascended (Marshall, 1890/2006). Barnard hoped *The Functions* would provide an analysis of "the executive processes, which are specialized functions in what we know as 'organizations'" (p. vii),[4] but suggested that "if these functions are to be adequately described, the description must be in terms of the nature of organization itself" (p. vii), specifically in terms of the "universal characteristics" (p. viii) of organizations. *The Functions* details relevant features of organizations, but admits that "more than the topography and cartography of organization would be necessary to understand the executive functions; a knowledge of the kinds and qualities of *forces at work* and the manner of their operation would also be needed" (p. viii, emphasis added). Barnard noted late in his life that he could have titled the book "The sociology of formal organizations" (*Morals*, p. 162).

The work thus presents a simultaneously descriptive, analytical, and dynamic theory of organization, the individuals who compose them, and the executives that lead them. Barnard's writing style in *The Functions* insures a challenging read for almost any reader, and we do not intend to provide a detailed review of the book's core arguments; the impressive legacies of the individual concepts in the book have been noted by others (Gabor & Mahoney, 2013; Scott, 1992; Williamson, 1995; Wolf, 1974). We choose a selective treatment of two overarching themes relevant to Barnard's value today: (a) organizations, their components, and environments as systems and (b) the moral imperatives that should guide and constitute executive work. Barnard's view of morality becomes central to our claim of his relevance to current issues and a systems view of organization shows how the pervasive interconnections in organizational life mean that seemingly small moral choices lead to societal challenges.

Systems Theory

Barnard saw organizations through a systems theory lens. If, as we claimed above, *The Functions* provides a warp and

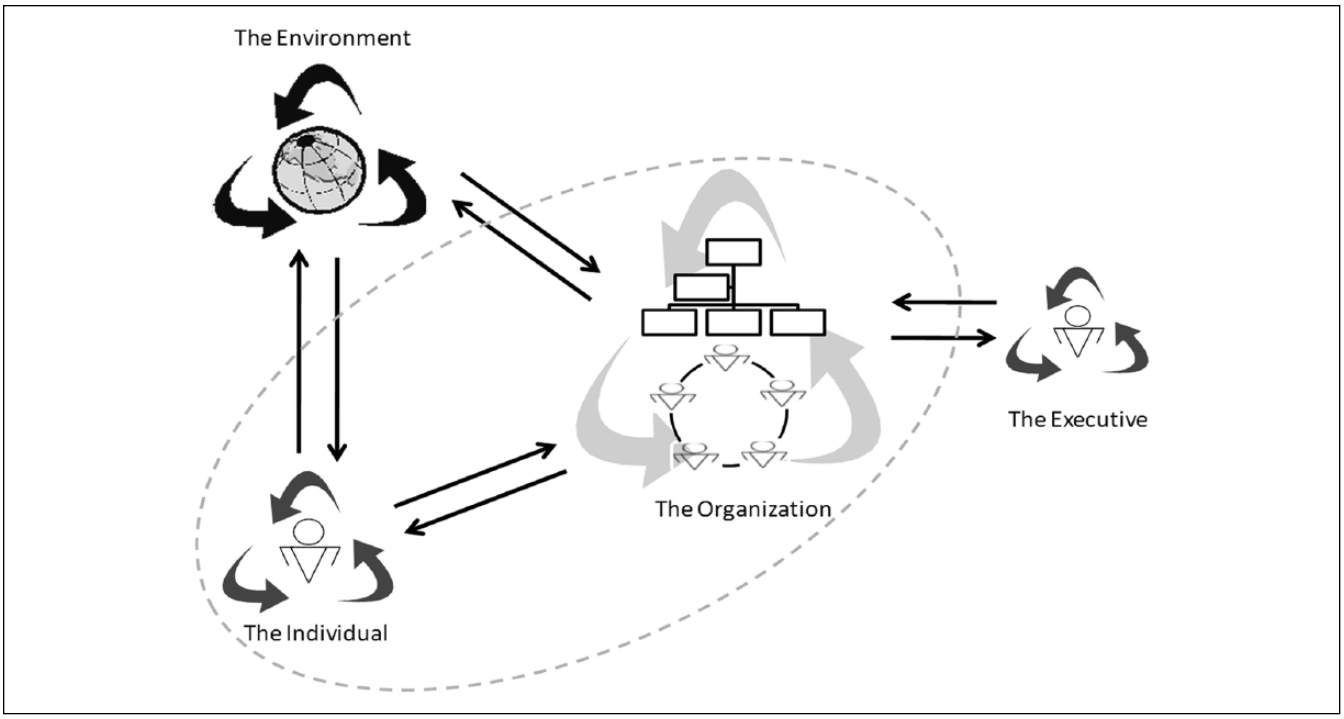

Figure 1. A visual representation of *The Functions*.

woof for the tapestry of management theory then systems theory makes up not only the threads that Barnard used to weave his theory, but also the dye that colored his individual constructs and their interrelations. In his classic work on general systems theory, von Bertalanffy (1968) defined general systems theory as "a general science of wholeness" or "systems as sets of elements standing in interrelation" (pp. 37-38) where the whole of a system exceeds the sum of its parts. The emphasis of systems theory becomes not merely the taxonomic description of the fundamental elements, nor an analysis of the dynamic interplay between the elements, but also a focus on the system as a whole entity that transcends any and all the individual elements. To facilitate our brief discussion of systems theory in *The Functions* we created a graphical representation, Figure 1.

Individuals, organizations, and cooperation. Individuals represent the most basic, non-reducible element in the organizational system. An individual, for Barnard, is "a single, unique, independent, isolated, whole thing, embodying innumerable forces and materials past and present which are physical, biological, and social factors" (p. 12); individuals constitute complex systems. Unique and independent humans cannot survive alone; physical and biological limitations mean that "human organisms do not function except in conjunction with other human organisms" (p. 11).

Barnard believed that the social, psychological, and moral elements of individuals combined in such a way that the *essential* need of the individual is association, which gives rise to a cooperative system of two or more individuals. Organization, the process of coordinating effort through the division of labor and sequencing effort over time (Chapter X), becomes a defining element in many cooperative systems; however, organization and cooperation exist as separate constructs: "an organization is a subordinate system of a specific larger system, the cooperative system, whose components are physical, biological, and personal systems" (pp. 98-99, fn). The dotted circle in Figure 1 highlights this relationship. Organization is completely social and structural; organizations do not act, only individuals do; organizations do not produce outputs or create utilities, only cooperation does (p. 252). Organization coordinates the activities or interactions of individuals in a cooperative system; formal organization "consciously" (p. 73) and deliberately (p. 186) structures and facilitates action while informal organization represents those interactions "without any specific conscious *joint* purpose" (p. 114, emphasis in original).

Barnard believed that organization creates "something new in the world that is more or less than or different in quantity and quality from anything present in the sum of the efforts" of the elements (p. 9). Barnard notes

> systems of cooperation, which we call organizations I regard as social creatures, "alive," just as I regard an individual human being, who himself on analysis is a complex of partial systems, as different from the sum of these constituent systems. (pp. 79-80)

Cooperation represents a systemic outcome of the interaction between two or more physical individuals. Small cooperative endeavors, what Barnard refers to as unit organizations (p. 109), operate as a system because the *act of cooperation* affects the individuals involved (p. 17). Systems thus exercise power over individuals because the needs and demands of the system alter and script action, sometimes in way individuals would not choose otherwise.

Individuals form organizations and cooperative systems to more effectively interact with the external environment. The environment in which individuals live and work comprises, like the individuals themselves, a dynamic system of physical, biological, and social forces or elements; those social forces include formal organizations (arranged in a hierarchy of dominant and subordinate organizations) but also as a "great complex of informal organizations" (p. 97). Dynamism and constant change describe the critical characteristic of the environment, driven by two sets of forces. First, physical instability (e.g., the weather) results in a physical environment constantly in flux. Second, the interplay of cooperation and the environment (p. 99) changes conditions: cooperation creates outputs (e.g., houses) that change the environment but also engenders/refines norms of interaction that "change the history of its environment" (p. 59).

Cooperation in a dynamically changing and interactive environment requires individuals (usually more than one) who specialize in the work of organization. The work of the organization such as dividing labor tasks, coordinating efforts, and supervising processes and outputs we consider today as management. Beyond the work *of* the organization, however, Barnard saw another role, that of the executive: "Executive work is not that *of* the organization, but the specialized work of *maintaining* the organization in operation" (p. 215, emphasis in original).

The executive. Executives do work "essential to the vitality and endurance of an organization" (p. 215). Executives complete this work through three key roles: they maintain the system of communication and authority necessary for cooperation to be coordinated, they secure individual efforts, and they formulate, define, and refine the purpose of the organization. We consider authority and its role in generating individual effort in this section; the purpose of the organization falls under the moral dimension that we take up in the next section.

Consent theory of authority. Organization, as a social creation, depends on communication among members to accomplish its purposes. "Authority is the character of a communication (order) in a formal organization by virtue of which it is accepted by a contributor to or 'member' of the organization as governing the action he contributes" (p. 163). Legitimate management authority represents both a technical and moral motivation for action in organizations; those giving the orders, and those carrying them out, do so in the belief of the rightness, goodness, or legitimacy of the commands. Barnard noted that "Either as a superior officer or as a subordinate, however, I know nothing that I actually regard as more 'real' than 'authority'" (p. 170, fn). The reality of authority arises from its *organizational* nature, the recognized position from which it comes, and the channels those communications travel to reach affected individuals.

However "real" authority may appear to us, Barnard nonetheless advanced an acceptance theory of authority, which asserts the "fiction of superior authority" (p. 170). Authority relies on a subjective, *individual* element, for its acceptance; commands must be properly given *and* recognized as legitimate or binding for action to occur or behavior to be modified. Authority "is the process by which the individual delegates upward . . . responsibility for what is an organization decision—an action which is depersonalized" (p. 170). Individuals grant to the organization and its executives large leeway for the responsibilities of decisions and the right to control or direct behavior. That grant will not be complete, however, but limited by an individual's "zone of indifference" (p. 167).

Individuals respond to authoritative commands in one of four ways; commands can be "clearly unacceptable," "barely unacceptable," "barely acceptable," and subject to further thought, or "unquestioningly acceptable" (pp. 168-169). Communications in the last category represent the "zone of indifference." The zone of indifference represents degrees of freedom that provide significant discretion for executives; the wider that zone the greater flexibility of action they enjoy in furthering the work of the organization and the less time and energy they must spend justifying their decisions or soliciting agreement.

In summary, Barnard saw organizations, when stripped to their fundamental elements, as systems. The system of cooperation exerts power over individuals in mandating certain actions for the good of the system; authority works to clarify and legitimate those needs in the minds of organizational participants. At one level, organizations represent technical systems to facilitate cooperation; however, Barnard saw the essential function of organization, especially the functions of the executives that lead them, as moral in nature. Barnard's description of motives, value attitudes, appraisals of utility, norms of conduct, and ideals situates *The Functions* within a view of morality that was common during his lifetime as "establishing and disseminating principles of right and wrong in conduct or behavior [or] behavior characterized by excellence of conduct" (Webster's new international dictionary, 1934).[5] We now consider in some detail the moral themes running through *The Functions.*

Morality

Cooperation, as a particular activity, achieves an equilibrium state with its environment when the exact sequence and

amount of effort optimally matches external demands. Either through exogenous change in any external element (including the individuals in the cooperative endeavor) or an endogenous alteration of the environment that arises out of cooperative action, the world changes and creates a new set of demands to which the organization or cooperative system *must* respond. The necessity of maintaining the survival of the organization and the search for equilibrium represents the first moral imperative of the executive function. The primary tools used by executives extend beyond the technical work done by the organization: the redefinition of purpose (pp. 91) and constantly adjusting the utilities that individuals receive from the organization (pp. 256-257). When done well, this work requires constant adjustment of internal purposes and dynamic communication processes to create a homeostasis or dynamic equilibrium with the external environment (pp. 233, 238).

Homeostasis represents a problematic construct for open systems, as Burrell and Morgan (1979) noted,

> Whilst a closed system *must* eventually obtain an equilibrium state, an open system will not. Given certain conditions, an open system may achieve a steady state, homeostasis, in which the system remains constant as a whole and in its phases, though there is a constant flow of the component materials. However, such a steady state is not a necessary condition of open systems. (p. 59)

Burrell and Morgan (1979) saw homeostasis as one potential, but not necessary, end of systems because they submit that systems have no teleological ends. *The Functions* presents a view of organizations as a unique type of system. Executive work indeed concerns the maintenance of the organization (p. 215); the first moral duty resides in insuring the survival and sustainability of the organization. The search for homeostasis, however, represents a *means* but not the *end* of organization. Homeostasis, organizational survival, enables two larger, teleological ends. The first end of organization can be found in the cooperative purposes that brought the organization together in the first place, or the pragmatic achievement of goals and organizational effectiveness (p. 91). The second end, as we consider in detail later, rests in creating an effective organization that provides a platform for "the mutually dependent realities" (p. 296) of individual and collective development.

The executive work of maintaining the vitality and endurance of the organization transcends physical, biological, or social work and constitutes moral work. Barnard explains that

> In many instances it has been unavoidable in this study to refer to the dependence of action in formal organizations upon personal choice, motives, value attitudes, appraisals of utility, norms of conduct, ideals . . . all these elements of organization [are] the moral factor [in] its concrete expression . . . to inspire cooperative personal decision. (pp. 258-259)

Put simply, executives invoke, and sometimes create, moral norms, or what Barnard referred to as moral codes.

Moral codes. Organizations possess moral character:

> As social systems, organizations give expression to or reflect mores, patterns of culture, implicit assumptions as to the world, deep convictions, unconscious beliefs that make them largely autonomous moral institutions on which instrumental political, economic, religious, or other functions are superimposed or from which they evolve. (*Morals*, p. 162)

By moral, or what is right or wrong, Barnard meant one of three things: personal morality, organizational morality, or developmental morality. *Personal morality* corresponds to the general notion of morality as ethical behavior, and arises from religious, philosophical, or family training as well as individual propensities or broader societal norms (*Morals*, p. 168). Morals are "personal forces or propensities of a general and stable character in individuals which tend to inhibit, control, or modify inconsistent immediate specific desires, impulses, or interests" and are "a matter of sentiment, feeling, emotion, internal compulsion, rather than one of rational process or deliberation" (p. 261).

> The requisite character [of the executive] includes: avoidance of criminal acts, gross and public immoralities and in particular stealing and lying; a willingness to recognize the interests of others to the extent of ordinary courtesy; and finally, a willingness to discharge commitments, that is, to perform duties accepted, to honor promises. (*Morals*, p. 168)

Organizational morality derives from the needs of the cooperative system. Barnard referred to this as "the good of the organization," and it constitutes whatever action may be necessary for the endurance of the organization. Like personal morality, organizational morality is limited by the strictures of superordinate organizations, the State and Church, or law and accepted moral norms (pp. 96-98). Organizational morality differs from personal morality in two key respects: first, its impersonal character means that the rightness or wrongness of an action depends on position not personality; second, "right" action depends on the specific demands of an ever-changing environment. Hiring new employees may be morally right (as it allows the organization to endure and thrive) at one time, while reductions in force may be the correct moral course of action at another time. The stability of organizational morality arises from a constant end or ultimate objective—survival of the organization and the cooperative system.

Barnard spoke of a third type of morality that we term *developmental morality*. Developmental morality reaches back to Aristotle's notion of virtue as excellence (Randall, 1960), and implies that right actions enable individuals to reach their full or best potential in all areas of human

endeavor; such a morality contains a clear teleological character, pushing individuals to reach noble ends. Individual development includes education and skill development (*Collectivism*, p. 18), creativity and good judgment (*Mind*, p. 305), development of aesthetic abilities (p. 235), patience and sympathy (*Personnel*, p. 11), and responsibility (*Collectivism*, p. 22), particularly moral responsibility.

Moral codes and moral responsibility exist as a system; the former a multilevel set of abstract ideas (drawn from society, organizations, groups, and personal dispositions and beliefs) and the latter an individual-level behavioral "quality which gives dependability and determination to human conduct, and foresight and ideality to purpose" (p. 260). Responsibility means adherence to a moral code. Moral codes and moral responsibility work within the executive to produce a systemic outcome, which Barnard labeled the "moral factor" that enables executives

> to inspire cooperative personal decision by creating faith: faith in common understanding, faith in the probability of success, faith in the ultimate satisfaction of personal motives, faith in the integrity of objective authority, faith in the superiority of common purpose as a personal aim of those who partake in it. (p. 259)

Individual actions produce organizational values because, as Barnard submitted, "we say that a man cannot divorce his official or professional conduct from his private morals" (p. 274). Barnard saw the generation of a moral system as the critical work of executives (Mahoney, Huff, & Huff, 1994; O'Connor, 2012). The ability of executives to act consistently with moral codes helps insure the effective functioning of the organization.

The strategic value of morality. Barnard viewed managers as moral actors and maintained that their ability to execute these distinctly moral roles determined the effectiveness of their organizations. Put in today's terms, Barnard championed the strategic value of moral behavior within organizations based on personal and organizational morality. In terms of personal morality, executives should give attention to distributional and procedural concerns of fairness, dignity, and courtesy in maintaining the organization. Concerns about fairness and justice should work on a broad conception of organizational membership; Barnard provided a logic that presages stakeholder theory (e.g., Freeman, Harrison, & Wicks, 2007).

The advantage of a strong personal morality in executive work builds on Barnard's fundamental and deeply held view of individuals as autonomous moral actors and the need to respect the rights of the individual (Wolf, 1974). At the organization level, Barnard experienced the positive impact of courtesy, respect, and extended the "opportunity for self-expression and recognition" to organizational members (*Riot*, p. 71); at the nation-state level Barnard saw the democratic process as "that of securing formal consent of an electorate to a formal governing proposition" (*Dilemmas*, p. 28) based on the fundamental right of individuals for voice.

Transparency and inclusion stand as essential organizational processes in decision making and implementation. In describing his work with the unemployed in Trenton during the Great Depression, Barnard highlighted the importance of respectful, inclusive organizational processes. "The essential first step in accomplishing these purposes [cooperative action] is complete sincerity and honesty of employers and managers" (*Riot*, p. 23). The adherence to personal moral codes of interpersonal respect and courtesy may enhance individual commitment to the organization or defuse potentially destabilizing loss of commitment (*Riot*, pp. 63-64, *Nature*, p. 91).

The Functions explains the importance of the creation of an organizational moral code by executives for others and for the organization as a whole:

> The distinguishing mark of executive responsibility is that it requires not merely conformance to a complex code of morals but also the creation of moral codes for others. The most generally recognized aspect of this function is called securing, creating, inspiring of "morale" in an organization. This is the process of inculcating points of view, fundamental attitudes, loyalties, to the organization or cooperative system, and to the system of objective authority, that will result in subordinating individual interest and the minor dictates of personal codes to the good of the cooperative whole. (p. 279)

This process constitutes organizational morality. The better executives complete this task, the greater the stability of organizational authority and, consequently, the wider the zone of indifference among organizational members. Wider zones of indifference enhance flexibility and adaptability by the organization to shifting environmental demands. Well-articulated and accepted organizational purposes also act as strong methods of persuasion, meaning that individuals receive greater personal satisfactions from accomplishing an organization's purpose. The morally constructed organization obtains greater contributions by its members while offering fewer costly material inducements, thus creating positive net value for the organization. Indeed, carrying out the purpose may become "an inducement in itself" (p. 174).

To sum up, the first moral imperative of executive work entails maintaining the organization in its ongoing interactions with internal individuals and external environmental elements. The ability to clearly articulate a personal moral code lays a foundation for executives to act with integrity and to create stewardship through an organizational morality or moral code. Barnard saw the strategic value of moral work in establishing processes that enable organizational purpose as well as improve strategic flexibility and adaptive capability. As we now explain, *The Functions* suggests that deliberately coordinated and goal driven organizational activity accomplishes the

second moral imperative of creating an organization that allows individuals to flourish and develop their full potential. Put simply, strategic action has moral value.

The moral value of strategy. Barnard offered a moral justification for organized cooperation, particularly formal organized cooperative behavior prevalent in the 1930s (Scott, 1992). The moral justification of organization, and strategic actions that create effective organizational outcomes, draws on his view of individuals and their potential for development, growth, and flourishing, or what we have termed developmental morality. Barnard believed that individuals possess free will, foundational rights, and fundamental dignity (Wolf, 1973, p. 5). The moral value of strategy begins with the limitations of those same individuals, particularly the physical and biological limitations that keep them from accomplishing goals and creating value on their own. "Cooperation justifies itself, then, as a means of overcoming the limitations restricting what individuals can do" (p. 23). Cooperation provides the seed from which organizations flower.

The justification that Barnard speaks of may be construed as purely *instrumental* and pragmatic as cooperation creates value, economically and socially, that would not exist otherwise. Organized cooperation enables individuals to clear more land, grow more food, create more products, deliver more services, and provide more entertainments than individuals could produce on their own. Organizations exist as moral institutions because cooperation creates moral *consequences*: more total social welfare, utility, or value. Organization meets the utilitarian, and economic, standard for moral desirability by creating greater good as measured at the level of the larger social system (Mill, 1863).

Barnard recognized this instrumental justification, but also argued for a different, non-instrumental moral justification in the creation of value:

> I believe in the power of the cooperation of men of free will to make men free to cooperate; that only as they choose to work together can they achieve the fullness of personal development; that only as each accepts a responsibility for choice can they enter into that communion of men from which arise the higher purposes of individual and cooperative behavior alike. (p. 296)[6]

Barnard emphasized the primacy of individual growth and development:

> Although highly developed individualism and well developed collectivism are mutually dependent conditions and perhaps equally indispensable to any high degree of civilization, so far as there may be a difference in their importance, the emphasis requires to be put on the development of the individual rather than upon the development of organization. The vital problem is that both shall be developed in proper balance and that they shall be integrated in ways that increase the strength of each. (*Collectivism*, pp. 18-19)

Organization creates *intrinsic* moral value by providing a platform for individual development. Education and the skills training that often accompany organizational membership create not only instrumental economic value but intrinsic moral value as education and skill (a) makes an individual *more* than he or she was before and (b) provides a platform for further growth and development of "higher purposes," excellences, or virtues (p. 296). Freedom exemplifies another intrinsic value; the strictures and limitations of formal organization, paradoxically, enhance human freedom of action by focusing and channeling those actions, a good in its own right (Barnard, 1948; Hayek, 1944; Wolf & Iino, 1986). Responsibility to moral codes and the intellectual, emotional, and spiritual growth that comes from resolving the moral conflicts attendant to organizational membership stands as another intrinsic moral outcome of the process of formal organization. To the extent that people *become*, not merely possess, more because of organizational participation then both organization and participation represent moral goods (John Paul, 1991).

In this section, we looked back on *The Functions* not only to lay out the core concepts for a new generation of readers but also to lay bare some of its deepest structures. We focused on the pervasive role of systems logic, and the primary role of morality in organization and executive work. We also noted that the properties of systems that permeate organizations intertwine with the moral underpinnings of those organizations to create collectives capable of actions that better society instrumentally and individuals intrinsically. We now turn our gaze forward and illustrate the continued relevance of *The Functions* for issues facing scholars and professional managers in the 21st century.

The Current Value of *The Functions*

In this section, we illustrate how the central argument of *The Functions* can inform current issues in management thought and practice. We note that Barnard's work contributed to the nascent field of management theory (Wren, 1994). *The Functions* appeared between Schumpeter's great works, *The Theory of Economic Development* (1934) and *Capitalism, Socialism, and Democracy* (1942), on the heels of Coase's (1937) *Theory of the Firm*, and coincident to the Hawthorne studies (Wolf & Iino, 1986). Barnard differed from these thinkers because he was, fundamentally, a practitioner of management interested in theory. We maintain that those lessons from practice about the roles, responsibilities, and functions of the executive speak to the challenges observed from the failure of Long Term Capital Management in 1997 to the insider trading conviction of McKinsey and Company's former head, Rajat Gupta, in 2013, the scandal most recent to our work.

Sun, Stewart, and Pollard (2011) saw in the financial crisis "a fundamental systemic failure of institutional arrangements

underpinned by several increasingly popular paradoxical assumptions, such as shareholder primacy, profit maximization, effective incentive systems, rational self-interest human behavior, universal agency problems, efficient market for corporate control, etc." (p. 6). In short, the origins of the crisis reside in neither the technical machinery of sophisticated financial instruments, nor the implementation of good governance, but rather in the moral failure of the entire edifice of governance logics. Even Alan Greenspan (2008: 2) saw a moral failure in the 2007 financial crisis:

> Those of us who have looked to the self-interest of lending institutions to protect shareholder's equity (myself especially) are in a state of shocked disbelief. Such counterparty surveillance is a central pillar of our financial markets' state of balance. If it fails, market stability is undermined.

While others may recognize the moral dimension underlying the scandalous record of business, they have little to recommend in terms of moral alternatives; technical solutions hope to mitigate and constrain morally reprehensible behavior while accepting the legitimacy of the self-interested nature of organizations. *The Functions*, in contrast, offers three lessons for scholars and executives in the wake of the most recent crisis: (a) maintaining the organization—the first executive responsibility—requires substantial attention to the duty of care, (b) the depth of the moral purpose of the organization undergirds its survival and effectiveness, and (c) the need to narrow the zone of indifference in our society toward financial risk taking. These recommendations flow from our perspective that the ongoing crises represent failures of organizational morality and executive responsibility.

Executive Responsibility

The primary moral responsibility of the executive resides in the work of maintaining the organization, creating a homeostasis that ensures the survival of the organization. Responsibility entails difficult choices that force the executive to act in the best interest of the corporation rather than his or her own interest. In short, Barnard saw one role of the executive as a fiduciary. Fishman (2007) defined a fiduciary as a person

> entrusted with a power to use either property or assets of the one entrusting the fiduciary, which may be to the detriment of the beneficiary. The fiduciary obligation goes against normal human behavior, because the fiduciary cannot act for himself or advance his own interest but can only further the interest of another. (p. 8)

Barnard made the case that executives have a fiduciary responsibility to the organization as a whole and not to any one stakeholder group—a view consistent with modern property rights theory and contemporary corporate law (Asher, Mahoney, & Mahoney, 2005; Blair & Stout, 1999; Klein, Mahoney, McGahan, & Pitelis, 2012). Responsibility means that individual action conforms to the requirements of some relevant code of conduct; executive responsibility entails the adoption of an "organizational personality" (p. 270) where actions will be dictated by "a sense of the good of the organization as a whole" (p. 277). The primary good for the organization is survival and the maintenance of the cooperative effort in the face of environmental change, unexpected human or social events, and the vagaries of chance. Executive responsibility thus points in the direction of exercising due care in decision making and action.

The fiduciary doctrine, properly understood, closely resembles Barnard's description of executive responsibility. Consider

> There are two well-established, primary fiduciary duties under Delaware law: care and loyalty. The court imposes these duties to create a legal framework that protects shareholders by reducing agency costs and aligning the directors' interests with the shareholders' interests . . . The duty of care requires that when making decisions, the directors use the amount of care that a person of ordinary prudence would use under similar circumstances . . . The duty of loyalty requires that the directors act solely in the best interest of the corporation. The directors have breached their duty of loyalty if they acted in their own self-interest and deprived the shareholders of a "neutral" decision-making body. (Appleby & Montaigne, 2009, p. 431)

The ongoing scandals and crises of the 21st century continually expose several breaches of the duty of care, or the obligation of executives to act responsibly to ensure the survival of their organizations. Long Term Capital Management took hedged positions that exposed it—and its partners on the other side of the trade—to overwhelming naked (literally uncovered) risks when their models predicted the wrong outcomes. Enron's board created a set of dubious off-balance-sheet entities in violation of its own ethics practices (Abelson, 2002). Banks and financial institutions, in pursuit of ever higher yields, invested in securitized debt products so complex that many did not understand what they were buying; information asymmetries between the packagers and purchasers of these instruments obtained to the extent that neither party could accurately assess the risks involved (Schwarcz, 2011), or consider credit default swaps (CDS's), a hedging tool to insure against financial losses from bad debt. At the height the crisis, CDS's represented a US$62 trillion dollar market, more than 5 times the value of the stocks traded on the New York Stock Exchange (M. Phillips, 2008).

Executives who take seriously the idea that their primary moral responsibility resides in maintaining and insuring the continued existence of their organization will also take seriously the duty of care suggested in the fiduciary doctrine. The prudent man test for the duty of care applies here; how

many prudent individuals would invest huge sums of money without understanding the fundamental nature and risks of the products? Prudent investors avoid a mythical enchantment of abstract principles like "the power of self-interest" to regulate and constrain behavior, especially when others engage in risky behaviors and reap such short-term rewards. Barnard's notion of executive responsibility encourages behaviors consistent with a duty of care that keeps in mind the importance of organizational survival.

Organizational Purpose

In the midst of the crisis of the great depression, Barnard wrote,

> Organizations endure, however, in proportion to the breadth of the morality by which they are governed. That is to say that foresight, long purposes, high ideals are the basis for the persistence of cooperation. (p. 282)

Barnard explicitly linked the breadth of organizational morality with "long purpose" and "high ideals." When functioning properly, shareholder value focuses managerial foresight and long purposes toward the creation of long-term economic value. Friedman (1970) praised shareholder capitalism for its *instrumental* moral value—that it allows shareholders to have more and invest in things that create personal utility. Barnard would not be opposed, given his work in the Bell System, to shareholder wealth as an instrumentally moral organizational purpose; however, he would note the lack of an intrinsic "high ideal" in shareholder capitalism and, in particular, the high ideal of personal development.

The depth, breadth, and length of organizational purpose certainly evoke calls for stakeholder management, in that theory's current development (Freeman et al., 2007; Freeman, Harrison, Wicks, Parmar, & De Colle, 2010). Including stakeholder voices in decision making may have ameliorated some transgressions leading to the great depression. We doubt, however, that a concern for the instrumental values of stakeholders connected with the firm, or inclusion in their decision processes would have had a decisive impact. We submit that the breadth of purpose Barnard wrote about entails a focus on "eudemonia," or human flourishing (Randall, 1960). Pope John Paul II (1991, Section 35, emphasis added) articulated a vision of such a moral firm, and the type of purposes underpinning it:

> When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied. But profitability is not the only indicator of a firm's condition . . . In fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a *community of persons* who in various ways are endeavoring to satisfy their basic needs, and who form a particular group at the service of the whole of society. Profit is a regulator of the life of a business, but it is not the only one; *other human and moral factors* must also be considered which, in the long term, are at least equally important for the life of a business.

Barnard identified many of those moral factors, which we included in our discussion of developmental morality. Such a moral focus in organizations would clearly include stakeholder voice and consideration, but also a deep and deliberate concern for "higher purposes"; that is, organizational objectives that focus on making all stakeholders not just wealthier in an economic sense but better in Aristotle's sense of eudemonia or human flourishing (Donaldson, 2012; R. Phillips, 2003). A broad moral purpose involves a focus on actions with intrinsic virtue as well as economic and social outputs with instrumental value. Such organizations may look very similar to existing ones; however, we suspect they would act quite differently. John Paul II (1991, Section 32) both echoed Barnard and illustrates the point:

> It is his disciplined work in close collaboration with others that makes possible the creation of ever more extensive *working communities* which can be relied upon to transform man's natural and human environments. Important virtues are involved in this process, such as diligence, industriousness, prudence in undertaking reasonable risks, reliability and fidelity in interpersonal relationships, as well as courage in carrying out decisions which are difficult and painful but necessary, both for the overall working of a business and in meeting possible set-backs.

Barnard emphasized that there is a need to articulate the "higher purposes" in organizations, which almost certainly include stakeholder principles and codes of ethics. It would also include recognition of the instrumental moral value of organizational outcomes in producing societal welfare. That higher purpose, however, would ultimately focus on the powerful end of building communities that allow participants to develop and flourish.

Narrowing the Zone of Indifference

Our last remedy and recommendation does not concern executives or leaders of societies, but rather members of organizations and common citizens. The law of supply and demand stands central to economic doctrine; perhaps no principle is more foundational. We can easily imagine financial firms and their executives trading mortgage-backed securities among themselves as the culprits and perpetrators of vast economic harms, creating untoward risks for their firms, shareholders, and society. We too easily overlook, however, the holders of those mortgages and the role they played. Sun, Stewart, and Pollard (2011) characterized a society plagued by "multifacets of greed permitted or encouraged by government policies, institutional arrangements, ideologies, and

cultures" (p. 7). In short, we have seen the enemy and he or she is, in some substantial degree, us.

Reform and progress entail not only changing corporate behavior, but also in the revival of critical thinking and questioning that would shrink our collective zone of indifference to business decisions with opaque, but very real risks. The public must narrow the zone of business behaviors we see as "unquestioningly acceptable," even when our moral compass suggests that such behaviors run afoul of our core human values. The justifications of business as a competitive sport with a set of rules all its own needs to fade; in its stead, we should adopt a view that business is, in fact, one of many social actors and one whose power and influence affect the whole of society. Business is not a game played outside the larger societal system, rather the game of business must be bounded by the needs of that larger society. We must not allow businesses a "free pass" in moral behavior, especially justified when our own material comfort level increases. We need, instead, critical thinking and questioning that subjects executive behavior and business decision making to scrutiny, transparency, and a concern for long-term consequences.

Reinhart and Rogoff (2009) noted one common refrain in every financial crisis of the last eight centuries: *This time is different*. The reality is that the causes of crises tend to follow similar patterns. We enlarge our zone of indifference when we, collectively, fail to examine history in critical ways. We see new technologies, new models, or new forms of social organization and believe that changes in the artifacts *around* humans somehow equate to fundamental changes *within* human natures. The zone of indifference expands here not because of our willingness to accept decisions foisted upon us but because of our lack of awareness concerning previous incarnations of those same decisions.

Management scholars have two roles to play in shrinking the zone of indifference. Ghoshal and Moran (1996) and Stout (2012) questioned fundamental assumptions (Stout) and consequences (Ghoshal and Moran) of an unfettered acceptance of the notion that the "[moral] responsibility of business is to make [as much] money" as possible for shareholders (Friedman, 1970). While such scholarship may appear as "fringe" or those making these claims may be perceived as annoying gadflies to the real conversations in management, we submit that questioning the dominant assumptions in the field invites examination of the zone of indifference. Such conversations about the moral aspect of organization belong front and center in the management research literature. The field of business ethics has much to add to these conversations; however, Barnard reminds us that moral considerations cannot be hived off into a compartmentalized discussion of ethics. Moral action is central to organization.

Second, management scholars act as management educators; as such we can, collectively, influence future generations of not only managers but consumers as well. The perpetuation of good management practices requires good theory and the same logic holds for "good" consumers, employees, suppliers, or community members (Ghoshal, 2005). We expend much effort in traditional business ethics classes posing quandaries to our students from a manager's perspective. We spend precious little time viewing those same quandaries from the perspective of employees, consumers, or citizens.

Scholars seem to implicitly presume managers have unlimited degrees of freedom and can do whatever they want in their organizational roles; the reality, suggested by the acceptance theory of authority, reveals they can do whatever we allow them to do. A critical view of history, particularly business history, should enter our curriculum in management courses beyond ethics. We must instruct our students that by questioning authority, demanding transparency, and considering the long run of economic activity as consumers and citizens we can encourage, and even enforce, better decision making on the part of our business leaders. If we, collectively, are part of the problem, then we must become part of the solution.

Conclusion

Barnard made clear that while there is a need to develop a "science of organization" (p. 290), such an effort will not be sufficient for success. An appreciation of the art of organizing is also needed (Isomura, 2010; Levitt & March, 1995; Mahoney, 2002), which is derived from the intimate, habitual, interested experience. Barnard wrote that the decision-making process

> transcends the capacity of merely intellectual methods and the techniques of discriminating the factors of the situation. The terms pertinent to it are "feeling," "judgment," "sense," "proportion," "balance," [and] "appropriateness." It is a matter of art rather than science, and is aesthetic rather than logical. (p. 235)

We began this article with an invitation to our colleagues to re-read *The Functions.* Barnard's opus continues to hold important messages for managers and management scholars, messages about the criticality of seeing the organization as a key element in societal systems. Given the important role business plays in current social arrangements, attention to the moral nature, roles, and purposes of organization becomes vital for moving business as an institution and individual businesses beyond an epoch of scandal. If accepted, our invitation should help management scholars to focus, as Barnard did, on both the science and art of management; we hope to see words such as feeling, judgment, sense, and above all morality begin to have their place in our thinking, conversation, and eventually research literature. Our goal would be that in another 75 years, *The Functions* will continue to be an important part of the management conversation.

Appendix

The Published Works of Chester I. Barnard, Chronologically Arranged

Year	Complete title	Published in
1934	**Collectivism** and individualism in industrial management	Wolf and Iino (1986)
1935	Some principles & basic considerations in **personnel** relations	Barnard (1948)
1936	Persistent dilemmas of social progress	Wolf and Iino (1986)
1936	Methods and limitations of foresight in modern affairs	Wolf and Iino (1986)
1937	Notes on some obscure aspects of human relations	Wolf and Iino (1986)
1938	The Functions of the executive	Barnard (1938)
1938	**Mind** in everyday affairs	Barnard (1938)
1939	**Dilemmas** of leadership in the democratic process	Barnard (1948)
1940	The **nature** of leadership	Barnard (1948)
1940	Concepts of organization	Barnard (1948)
1943	On planning for world government	Barnard (1948)
1945	**Riot** of the unemployed at Trenton, New Jersey, 1935	Barnard (1948)
1945	Education for executives	Barnard (1948)
1946	Functions and pathology of status systems in formal organizations	Barnard (1948)
1946	A review of Barbara Wooton's *Freedom under Planning*	Barnard (1948)
1947	Some aspects of organization relevant to industrial research	Wolf and Iino (1986)
1947	Social factors in the medical career	Wolf and Iino (1986)
1950	Skill, knowledge, and judgment	Wolf and Iino (1986)
1950	Book review of *Bureaucracy in a Democracy* by CS Hyneman	Wolf and Iino (1986)
1952	Leadership and the law	Wolf and Iino (1986)
1958	Elementary conditions of business **morals**	Wolf and Iino (1986)
1961	Conversations with Chester I. Barnard	Wolf (1973)

Note. Cited works in the text used bolded word as title marker.

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Notes

1. To ease the burden on the reader, we omit the author/date in text references for *The Functions*. Quotations from the work will include the page number(s) only. The appendix provides a list of Barnard's published works; citations from other works will include a text marker (the bolded word in the appendix) and the page number(s).
2. We could begin a short recounting of scandal and crisis with the first "too big to fail" incident, the 1997 bailout of Long Term Capital Management (Lowenstein, 2000). Since the dawn of the new millennium, our list would include Enron, World Com, Adelphia Communications, the Bernie Madoff investment scandal, and the financial meltdown and ensuing rescue of 2008 to 2011 (including the bailouts of AIG, General Motors, and the TARP program); the mortgage foreclosure crisis and robo-lending scandals, the collapse of MF Global, and the insider trading scandal ensnaring McKinsey & Company, KPMG, and SAC (Stephen A. Cohen).
3. *The Functions* represents the edited versions of eight lectures Barnard delivered at Harvard in November and December of 1937. Wolf (1973, 1974) and Wolf and Iino (1986) provide excellent accounts of how Barnard came to give the Lowell Lectures.
4. For convention, when referring to Barnard we use the past tense but when referring to *The Functions*, other works, or the theory he developed we use the present tense. The past and present tense may be used simultaneously in the same paragraph, but we follow this convention throughout the article.
5. We reference here a common definition of morality current at the time Barnard worked and wrote.
6. Donaldson (personal conversation, 2011, 26 July) explains the significance of Barnard's contribution as clearly establishing freely chosen cooperative activity as a good in itself, and as a good that is not merely instrumental: "This takes him beyond Mill, for whom all goodness resides in the maximization of individually located happiness, and, indeed, beyond Kant, for whom being good is its own reward, and all the way to Aristotle, for whom man is a social animal that cannot be fulfilled save through cooperative efforts in an organization (for Aristotle, who lived in a world without corporations, that organization was firstly the polity, and secondly, the family)."

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