Governance, Moral Governance and Organisational Moral Ethos: A Systems View

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ABSTRACT

This paper seeks to explore systemic links between governance, moral governance, organisational moral ethos and moral behaviour in organisations. In doing so, it employs related frameworks for examining how moral ethos and moral behaviour evolve within different systems of governance and moral governance. The paper shows how the viable systems framework of Beer can facilitate the development of perspectives and insights about the systemic features of the related frameworks of Kohlberg (1984) and Snell's adapted Kohlbergian model (Snell, 2000; Snell and Tseng, 2002), and also how those frameworks can be used to refine insights about aspects of viable systems functioning.

INTRODUCTION

This paper begins by outlining a seeming convergence of issues in governance and moral governance, a convergence that appears somewhat paradoxical given an extant diversity of views and conceptions of governance. Then, following an exploration of how the frameworks of Snell *et al*. (2000, 2002) and Kohlberg (1984) can be used as interpretive filters for examining what constitutes organisational moral ethos, and following a brief resumé of Beer's work, these issues, views and frameworks will be examined and reinterpreted using Beer's systems framework. The paper will conclude with some observations on the usefulness of Beer's framework in understanding the systemic roles and functions required of governance and moral governance, their contribution to viability, and also how viable systems thinking can be enhanced through the use of complementary frameworks.

Issues in Governance and Moral Governance

Since the seventies, interest in corporate governance has been catalysed 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, 2002: 58). But, as implied by Kay *et al*. (1995: 84), such events are not just recent phenomena, and much of the increased scrutiny can be attributed to the advent of harsher economic conditions that have drawn to the surface such manifestations of underlying corporate frailty, weaknesses or excesses.

Growing interest in governance can also be attributed to an enhanced awareness by those organisations that operate in an international context, of the different governance practices that exist in an increasingly global corporate sector operating in global markets (Witherell, 1999: 78; Lannoo, 1999: 270; Cadbury, 1999: 13). Additionally, the extent to which governance issues pervade society is exemplified by the behaviour of organisations in the voluntary or non-profit sector, and by their perceptions of the role and importance of governance. We note that changes that are taking place in the world of sport reflect a climate that mirrors the movement for reform of corporate governance described by Tricker (1984) and Cadbury (1992). In an interesting comparison to governance issues arising in sport, Hampel (1998: 9) contrasts the perspective of his work to that of earlier research by Cadbury (1992) and Greenbury (1995). He suggests that whilst their approach and guidelines 'concentrated largely on the prevention of abuse',

responding to 'things which were perceived to have gone wrong', his work, which appears as the combined UK code on corporate governance (Parkinson *et al.*, 1999: 101; Lannoo, 1999: 283), was equally concerned with the articulation of principles of corporate governance that would make a positive contribution to organisational life.

Indeed, many leading sports bodies have restructured their governance processes voluntarily in recognition of a need to bring about greater organisational effectiveness (Davies, 1997), accepting the notion that performance is predicated on effective governance (Schlefer, quoted in Byrne, 1996, p 82-85). Others have engaged in reforms of the governance and management structures - for example, New Zealand Soccer, Soccer Australia and the Football Association in England - to effect change to the balance of stakeholder representation and stakeholder interests, and to limit potential abuse of executive power. At the global level, the commercial success and financial strengths of the IOC, set alongside bribery and drug scandals, has focused attention on issues of moral governance and governance processes, particularly the relationship between governors, executive management and their private sector agents.

We note that common conceptions of governance connote not only government and governing, but also the activities of governing boards and bodies, the terms often being used interchangeably and confusingly (Stoker, 1998: 17). The governance literature can be regarded as fragmented reflecting the different disciplinary backgrounds of researchers - sociology, finance/economics, organisational theory and strategy - leading to different terminology and operationalisation of similar concepts (Zahra and Pearce, 1989; Turnbull, 1997; Dalton *et al*., 1998; Vinten, 1998; Maassen, 1999). The opinion of Maw *et al.* (1994: 1), based on their practitioner experiences, that corporate governance is 'a topic recently conceived, as yet ill-defined, and consequently blurred at the edges', matches empirical findings that describe corporate boards as 'complex, dynamic human systems charged with an ill-structured set of responsibilities' (Demb *et al.*, 1992), findings which have been endorsed by Cadbury (1999: 15), and which have a counterpart in the nonprofit sector (Middleton, 1987: 141). However, many empirical studies have necessarily not been theory driven and, of those that are, a focus on structure and board activities has provided only proxy or surface descriptions of board behaviour, whilst the impact of broader contextual factors has been largely ignored (Korac-Kakabadse *et al.*, 2001: 26,27).

Previous work has surveyed alternative conceptualisations of governance that have surfaced in the academic and practitioner literature and has drawn attention to the cybernetic and systemic features of diverse views of governance. Davies (2002, 2001), Tepe and Haslett (2002), Turnbull (2002) have sought to develop systems and cybernetics perspectives on governance and models of governance. Whilst Davies sought to determine the extent to which alternative models of governance exhibit systemic and cybernetic properties; Tepe and Haslett have used systems and cybernetic concepts to aid the design and implementation of governance systems. Turnbull's work has shown, in complementary fashion, how cybernetic principles can be invoked to determine how information flow in organisational hierarchies may be distorted, with a consequent loss of requisite variety and/or information overload, leading to governance dysfunction.

Moral behaviour has been examined elsewhere using Kohlberg's six-stage model of moral or ethical reasoning (Kohlberg, 1984); Snell's adapted Kohlbergian model (Snell, 2000); 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 organisational moral behaviour. We surface the literature on how such behaviour relates to organisational moral ethos or atmosphere, the nature of socialisation within the organisation, the basis of moral authority in organisations, formal moral governance, and the values that underpin moral reasoning. We also suggest how wider societal and socialisation forces that impact upon the embedded organisation can be reinterpreted using Beer's framework and its notion of recursion to explore the systemic relationships at large.

This paper focuses on issues of moral governance, reinterpreting Snell's adapted Kolbergian model of moral reasoning and moral development, within the context of Beer's viable systems framework. The paper draws upon various case examples to illustrate and re-examine moral and ethical behaviour within organisations, and to relate that behaviour to organisational moral ethos and moral governance. We seek to demonstrate that the embedded, recursive nature of individual, organisational, sectoral and societal systems lends itself to the use of Beer's systemic notions in adding fruitful insights and perspectives to those arising from Snell and Kohlberg's conceptualisation.

GOVERNANCE, MORAL GOVERNANCE AND ORGANISATIONAL MORAL ETHOS

First, we state how each of the key concepts or terms are to be considered. Davies (2002) has provided an overview of alternative conceptualisations and models of governance including some that have been identified as exhibiting cybernetic features and functions. They range from Young (1996), who focuses on information and feedback mechanisms as prerequisites of effective governance; Jessop (1998) and Rosenau (1992) who explicitly refer to systemic functions of governance; to Carver's (1999, 1997) values-led policy-driven governance framework; Kay *et al's* trusteeship model governance; Charkham's view (1994) of effective governance being 'its ability to reconcile entrepreneurial freedom with effective accountability'; and Demb *et al's* (1992) emphasis on balancing stakeholder rights and needs. However, such a bare summary does little justice to the domain. For example, Demb *et al.* (1992) conceptualise a governance system wherein a board, as a sub-system, has an integral, interdependent role interacting with, and being influenced by three other sub-systems – the wider regulatory system, the system of ownership, and the societal system. Others have offered similar notions to Demb *et al.*, outlining 'governance frameworks' or 'systems of governance' within which organisations operate. Cadbury (1998: 2) describes a framework structured by interacting forces: by the force of law impacting upon organisations; by the regulatory forces of, for example, the Stock Exchange; by shareholder meetings and by the force of public opinion. Allison (1998: 29) has similarly commented that 'the system of contemporary world governance in sport' is also one of complex interdependence - between international and national governing bodies, international law and the courts, the media, commerce and business, the fans and the public etc. Worthy *et al.* (1983) had previously offered a similar view that governance is 'concerned largely, though … not exclusively with relating the corporation to the institutional environment within which it functions.' Issues of governance for them include 'the legitimacy of corporate power, corporate accountability, to whom and for what the corporation is responsible, and by what standards it shall be governed, and by whom'. Recent work by Korac-Kakabadse *et al.* (2001: 24) confirm that 'there is a growing perception corporations are social entities overall' answerable to social constituencies, and that the role of governance is not only to understand and address the interests of such social and political constituents (Peters, 1998: 6), but to do so in a way which would reflect an organisation's external accountabilities. These frameworks for understanding

governance, and views on the nature of governance, can be set alongside the frameworks of Snell *et al.* to examine matters of moral governance, organisational moral ethos and its antecedents. To ground this examination,, we will provide an operational basis useful for discussing moral ethos and moral governance.

Jackal (1984) and Snell (1993) define moral ethos as 'a set of force-fields within organisations, 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 encouraging, establishing, determining and enforcing official ethical standards within an organisation (Snell, 2000: 281; Snell & Tseng, 2002: 454). As such, the systems may emphasise control in the hard, arbitrary or coercive sense, or through oppressive ideology or imposed identity; obversely, they may suggest 'control' in the sense of values-lead self-regulation expressed through open inquiry and dialogue, that is through participative structures (Collier and Esteban, 1999: 184). Consequently, the nature of formal moral governance may be identified as having several dimensions and may be characterized to the extent it is based on procedural justice and open dialogue rather than ideology and role or role-model identification; or based on coercion or rules rather than laissez-faire attitudes.

The Kohlbergian Model

The moral behaviour of individual actors may be examined using Kohlberg's (1984) six-stage model of moral or ethical reasoning. Kohlberg's framework can be used to ascertain the level of moral reasoning-in-use by various organisational actors and/or to suggest the moral developmental process experienced by those actors. Similarly, one can examine and develop a profile of the levels of moral reasoning-in-use by organisational entities, by using Snell's adaptation of the Kohlberg model (Snell, 2000) (see Appendix 1.)

It is 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 categorise individuals who respond to outside influences in a self-centred fashion. Level One captures an egocentric 'fearful, unquestioning deference to authority' - obedience, fear of retribution - 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 legitimisation by significant or respected others, or by governing institutions. Whereas Level Three behaviour manifests as an orientation to interpersonal, group or organisational approval, a disposition to loyalty and pleasing others, Level Four extends beyond being the 'loyal organisation 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, this may be seen as captured in the world football governing body's - FIFA – 'For the Good of the Game.'

Level Five morality extends to recognising 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: 272-273).

MORAL GOVERNANCE AND SNELL'S ADAPTED KOHLBERGIAN MODEL

Kohlberg's framework, as initially developed (1984), facilitated the examination of moral judgement and the capacity for moral reasoning of individuals, by conceptualising a 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. Snell (1993, 2000) has since followed in the paths of others (Higgins and Gordon, 1985; Kohlberg, 1985; Logsdon and Yuthas, 1997) in attempting to translate Kohlberg's work to an organisational 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 organisation, asserting that organisations, in and of themselves, are not capable of moral judgement, and only reach a particular stage of moral development in a 'metaphorical' sense. Additionally, since organisational morality is expressed through a variety of individual actors 'who come and go,' organisational moral ethos is better represented by a profile of 'prevalent and powerful stages' rather than the single stage that is used to reflect any limiting capacity for moral development of individuals. We agree with Snell on the importance of conducting an 'analysis of moral reasoning-in-use across a wide spectrum of issues facing the organisation, and from the point of view of various stakeholders' (Snell, 2000: 286). We concur that such analysis would then provide the basis for developing a profile of moral behaviour reflecting the various levels of moral reasoning exhibited within the organisation.

Kohlberg's framework, as modified by Snell to provide insights about moral reasoning, moral governance and organisational moral ethos (OME) in organisations, can help in understanding moral governance, that is, how ethical 'standards' develop or are determined and enforced in those organisations; how moral authority emerges on a spectrum stretching from domination through to acceptance based on deferential and then critical trust; how socialisation within organisations impacts on those beliefs underpinning moral reasoning; and then how individual and 'corporate' perspectives and outlooks and actions are effected (see Appendix 1.)

The nature of formal moral governance will influence and be influenced by the basis of moral authority (BMA) in the organisation. In the simplest terms, we may define the basis of moral authority as reflecting the nature of power to define or attribute what is right or wrong, good or bad, what is acceptable as behaviour 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, favouritism and nepotism, or control of access to information etc. It may also reflect expertise, charisma, network maintenance, gatekeeper status, tacit knowledge, rewards, and reflect notions of deferential or critical trust and faith. Consequently, we may see 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 organisation'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 the virtuous cycle continues – until that trust is breached! (Snell & Tseng, 2002: 451-455)

How organisational members perceive and understand the signals and values implicit in organisational action and behaviour will be influenced by what Snell (2000: 282) refers to as deep, implicit socialisation (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; the importance of mimetic behaviour, cloning - mirroring the behaviours and values of the powerful; and a need for critical self-reflection, independence & confidence in exercising judgment. Organisational members may learn of differences between espoused values and actual values; they may become aware of codes of 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. Such differences between what constitutes formal moral governance and what constitutes the social reality of the organisation reflect the ambiguity in organisational moral ethos. De facto morality can then be conceptualized as a normative structure that represents the nexus of official and unofficial values, assumptions and expectations about day-to-day moral conduct.

Drawing parallels with Korac-Kakabadse *et al's* (2001: 24) comment that one role of corporate governance involves understanding and addressing the interests of various stakeholders and constituencies, we note that Snell (2000: 283-286; 2002: 454) seeks to include stakeholders within the system of influence for understanding the nature of organisational moral ethos. 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 organisation. Consequently, any interpretation of corporate or individual behaviour must take account of possible different perspectives emerging from the frame induced by the particular stakeholder group. Snell encapsulates this view by describing it as the Corporate Outlook towards Stakeholders (COTS). For him, the concept not only captures how the needs and claims of various stakeholder groups are attended to, but also how multiple perspectives on different stakeholders are manifest in the moral reasoning behind major policy decisions.

For example, the same behaviour - an action, communication or media release, restating a football club's anti-racism policies - may be regarded by some, within and without of the organisation, as an attempt to placate or buy-off ethnic minorities; and yet be interpreted by others as a legitimate attempt to signal the sense of corporate citizenship prevalent in the organisation in a manner thought necessary to maintain trusting relationships with, say, sponsors. As an additional example, the decision to allow sportsmen who are charged with serious offences to continue playing for an elite team, on the presumption that individuals are innocent until proven guilty, may reflect Kohlberg's Level 4/5 moral reasoning in demonstrating respect for the players' legal rights as stakeholders, that is for procedural justice, but also be regarded as Level 2 reasoning in terms of 'pandering' to supporters' groups wanting to see their best players on the field.

Embedded in the Kohlbergian model are beliefs, values and assumptions that underpin moral reasoning. Such beliefs can evolve through different socialisation processes impacting on one's capacity for moral reasoning and how that reasoning evolves into principles of moral and ethical behaviour in broadening contexts. Such principles may then guide the individual away from

egocentric and individualistic behaviour, developing towards a consideration of justice and welfare for significant others and societal groups, and then to an embracing of universal ethical ideals and principles.

This paper now seeks to draw selected parallels between the embedded socialisation processes involved, for example, in the development of values that underpin moral reasoning in organisations, the evolution of an organisation's approach to formal moral governance, what forms the basis of its moral authority, and the embedded nested nature of viable systems. As a precursor, we provide a brief overview of Beer's framework.

BEER'S VIABLE SYSTEMS FRAMEWORK

Beer's framework (1979, 1981, 1985) can be used to shed light on the design and effectiveness of purposeful organisation - virtual or real. His approach, just like Cadbury's approach to governance (1992, 1998) is not pre-occupied with structure. Neither is the approach pre-occupied with the organisational typologies often used to reflect structure, or the configurations that are often embodied in organisational charts.

Instead, Beer focuses on the systemic functions that enhance organisational viability, and which provide a basis for adaptive learning about what are effective organisational behaviours and goals in a climate of complexity and change (Davies, 1999). Beer's research (1979, 1981, 1985) has demonstrated that certain systemic features or functions are necessary to any system's viability or survival. To be viable in Beer's terms, that is, to survive and be effective, an organisation must be able to manage uncertainty and complexity by achieving requisite variety of response. It can develop requisite variety either by creating increased variety of response or capability in its own systemic behaviour and functioning, or by acting as if to reduce the environmental variety to which it would otherwise be exposed. Knowledge of these systemic functions can therefore be used to analyse the systemic strengths and weaknesses in existing organisations, and/or to, guide the design of organisations to provide required systemic features. Beer's cybernetic framework for analysing organisational systems is known as the Viable Systems Model (VSM).

The use of cybernetic science to underpin the design of self-regulating, adaptive technical systems that can maintain required outputs, and work within established norms, is well known and predates Beer's attempts to extend its use to organisational systems (Francois, 1999; Shenhav, 1995). However, Beer's conceptualisation of cybernetics as 'the science of effective organisation - the science of communication and control, in the animal and the machine,' extends the applicability of cybernetics beyond natural and technical systems. Indeed, in doing so, he emphasises the importance of communication as part of organisational systems design - building communication channels, generating information flows and installing information feedback mechanisms - to enhance learning and adaptive response, that is, to develop requisite variety in action.

Viable Systems Thinking and Governance

Beer conceptualises all viable systems as a network of communication channels bonding five complementary sub-systems. The sub-systems, whose effective functioning and communication links are necessary to any system's viability, comprise - an operational system, S1, of autonomous operational units that act out the very identity and purpose of the overall system, and a meta-system comprising four other sub-systemic functions: S2 - effecting beneficial coordination of the autonomous units, reducing conflict, providing guidance to reduce the

complexity of choice; S3 - operational planning, resourcing, regulating, guiding, monitoring - for and relating to the autonomous units; S4 - intelligence and strategy development serving the whole organisation's future; and S5 - the creation and promulgation of identity, vision, direction, purpose and mission, throughout the organisation and its wider environment (Brocklesby *et al.*, 1995). All sub-systems are part of the larger system under investigation, which is defined as the System-in-Focus (SIF). In terms of systems logic, no one sub-system is considered to be more important than another in contributing to the viability of the SIF. However, it will be S1's activities that directly serve the organisation's purpose; and it will be the meta-system's function to provide the organisational climate, the direction, resources and support for S1 to best manage in a changing complex environment, and for the S1 units to become viable sub-systems themselves at a lower level of recursion or embeddedness. The SIF may, itself, be part of, or embedded within a larger organisation or system (Davies, 1999). 'Whether the systems are local or global in scope, those functional needs are ever present if a system is to persist intact through time.'

In contemplating the use of Beer's VSM to examine aspects and models of governance, we take the view of Rosenau (1992: 3) who states that 'to presume the presence of governance … is to conceive of functions that have to be performed in any viable human system'. Interestingly, and without reference to Beer, those functions are listed as setting goals, developing strategies and policies, procuring resources necessary for 'preservation and well-being', preventing conflict among its members or factions from tearing it apart etc, and more generally, as a measure of effective functioning, coping with environmental uncertainty and external challenges. Such a view also resonates with Collier and Esteban (1999: 184) who suggest that if organisations are to survive and succeed in rapidly changing environments, governance becomes a question of choice of direction, of navigation in the face of competing and conflicting demands inside and outside the organisation.

Beer would contend that organs, instruments, activities and processes of governance need to be effective in the sense that they establish or contribute to the maintenance of systemic identity and purpose(s) which have coherence, and which are projected, shared and accepted within and without the organisation by its internal and external constituents. Identity is necessarily linked to the organisation's purpose, its raison d'être, and together, they can provide a guiding beacon and logic that cultivate the values and ethics that underpin ends-oriented and mission-oriented behaviour.

Effective organs of governance must balance the competing values and attentions of multiple constituents, and of long and short-term objectives. In keeping with fundamental purpose and values, the processes of governance must decide on strategic direction and goals for the organisation, and be capable of assessing the performance of senior management in operationalising those goals. Those involved in governance processes, for example, a governing board, must also be capable of critical self-reflection, self-monitoring and self-assessment, that is, they must be capable of embracing in concept, a 'model' of the organisation - its purpose, identity, structure, functioning etc.

These are primarily S5 and S4 functions within Beer's framework. Beer's approach, however, requires recognition of the need for quick response to environmental change, the need for adaptability - or to use Demb *et al's* terms (1992: 195), 'the imperative of adaptability'. It implies autonomy to act, within Charkham's framework (1994) of controls and accountabilities, and within the 'tight-loose' framework of Peters and Waterman (1982: 318), but which in Beer's

terms and in Carver' s (1999, 1997) terms means working within a framework of S2 policy guidelines and 'controls', whose development is a necessary S3 systemic function, reflecting S5 identity and values. However, when Collier and Esteban (1999) assert that effective governance relies on the ability of the organisation to 'trust freedom' and to encourage the creativity of its members, they are not only espousing implicit acceptance of Beer's notion of S5 values – trust – and the S1 need for autonomy as a means of maintaining viability, they are suggesting that these systemic functions are as applicable to a consideration of moral governance as to governance itself

MORAL GOVERNANCE – A SYSTEMS VIEW

We may now attempt to draw attention to Snell's summary of how moral governance is impacted upon by wider societal, sectoral and institutional forces, as well as by forces from within the organisation (see Fig 1). A number of studies by Snell and fellow researchers (Snell & Tseng, 2002: 449, 2001: 171; Snell & Herndon, 2000: 493) have surfaced how societal factors, for example, the strength and integrity of the legal system; the nature, level and acceptance of civic accountability; and the existence of controlled or distorted markets can impact on broader public perceptions breeding cynicism and lack of trust, and then adversely on workforce moral self-efficacy, presenting further challenges to the pursuit or preservation of individual moral integrity.
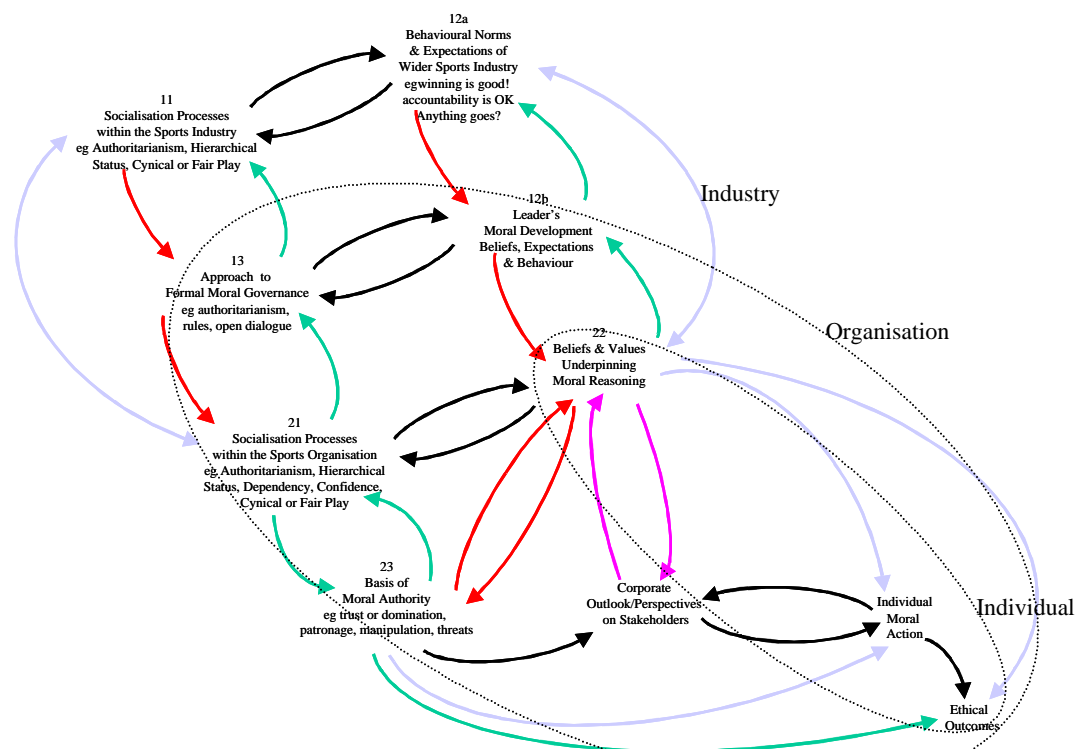

Figure 1 - Factors Contributing to Organisational Moral Ethos, Formal Moral Governance and Moral Authority operating at individual, organisational and industry level – adapted from Snell (2002)

Snell and Tseng (2001: 171) have suggested how the absence of rational-legal moral governance at the government level, and the sociological phenomena of anomic and relative deprivation, contribute to implicit socialisation processes that may provide the seed bed for corruption at the level of the business. In a study of Chinese mainland enterprises, Snell and Tseng (2002: 449) found that adoption of a system of rational-legal administration and of transparent internal justice made for a more effective approach to moral governance at the level of the organisation.

By contrast, they also found that government-championed, or in-company propagation of avowed business morality appeared to have little impact on prevailing organisational moral ethos. They attributed the failing of such approaches to what they termed 'normative incoherence' – what Senge (1999: 197) has referred to as the absence of 'walking the talk' – a clash between espoused values and actions that becomes sufficiently, yet implicitly embedded in socialisation processes and experiences to undermine any 'well-intentioned' exhortations from having an impact within the nested business sector and organisational systems. In Beer's terms we see S5 dysfunction at the highest societal/governmental level of recursion, manifest as inadequate moral governance and incongruent values, being reflected as S5 dysfunction in terms of identity, values, unethical behaviour within the embedded sectoral and organisational systems at lower levels of recursion.

Bird and Waters (1989) state that managerial behaviour, actions and interactions are influenced by a number of 'normative expectations' that emanate from wider society, reflecting societal mores and socialisation processes, the legal system, regulatory and professional bodies, the political culture etc (Peters, 1998: 6); and also from within the organisation itself, its policies and its own embedded socialisation processes. Such norms may then manifest as S5 ethical principles that link to notions of fair play, social responsibility, occupational health and product safety etc, spreading within and without of the organisational system. An important notion of viable systems thinking is that S1 units can themselves be conceptualized as viable systems exhibiting the full set of five systemic functions. So whilst the autonomy of S1 units allows for the development of appropriate 'local' S5 values and ethical principles at the lower level of recursion, the 'upward' diffusion of ideas, values or practices through effective communication channels operating as vehicles for formal S3 reports to the higher level of recursion, or informal S3* 'ear-to-the-ground' or 'locker room' banter, is not precluded. The latter would be a common-phenomenon in viable systems.

In a similar vein, Snell (2000) concurs with Logsdon and Yuthas (1997) that societal norms and expectations will impact on the norms, expectations and socialisation processes within an industry, say the sports industry, and consequently on industry leaders' beliefs, expectations, moral development and consequent behaviour. These behaviours, in turn, impact on the socialisation processes within sports organisations, moulding the beliefs and values that underpin the moral reasoning of individuals and guiding their subsequent moral action.

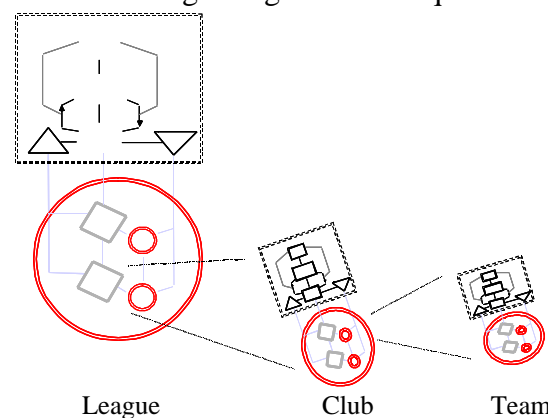League   Club   Team

Figure 2 – The Recursive Nature of Viable Systems

In Beer's terms, we conceptualise the team as embedded within the sports organisation, within the sports industry, within society etc. Then, for example, we note the S5 values of the sport, for

example, Fifa's 'For the Good of the Game' spreading through the embedded systems, being reflected as S5 values at different levels of recursion, and engendering the moral ethos that also contributes to effective S2 anti-oscillatory, coordinating behaviour, mitigating tendencies towards unhealthy competition and unethical behaviour, and guiding S1 behaviour that meets the fundamental purpose of the organisation.

By contrast, Bird and Waters (1996: 75) have described the reluctance or disinclination of many managers and leaders to articulate or explain their behaviour or action in terms of its moral dimensions. It has been suggested that awareness of the moral issues threading business, say, is adversely affected not only by an absence of open or public discussion of such issues (Solomon and Hanson, 1985: xiv), but because managers often defend or legitimise decisions based on their private moral standards or values by invoking business interests, rather than admit to altruistic behaviour (McCoy, 1985: 8,9). Such behaviours are again redolent of the deep implicit socialisation processes that pervade our organisations. Indeed, as Menzel (1999: 524) has suggested, 'managers cannot for better or worse escape the culture of the workplace.'

Bird and Waters (1989: 75) describe such managerial behaviour as 'moral muteness,' and attempt to identify its causes and effects. They draw attention, for example, to a managerial view that 'moral talk' itself can be dysfunctional at different levels, threatening S2 organisational harmony and S1 efficiency in being intrusive and possibly confrontational; and threatening personal reputation and image, in that moral talk is viewed as redolent of S1 esotericism, S5 idealism, and devoid of S4 analytical rigour.

	Actions Follow Normative Expectations	Actions Do Not Follow Normative Expectations
Moral Terms Used in Speech	Congruent Moral Conduct	Hypocrisy, Moral Weakness
Moral Terms Not Used in Speech	Moral Muteness	Congruent Immoral or Amoral Conduct

They also identify likely consequences of moral muteness in terms of possible distortions of public perceptions of management as moral or amoral activity; and in terms of managerial perceptions or misperceptions of the organisational importance attached to moral issues and moral behaviour. In the latter case, the systemic consequences of moral muteness may include an inter-related set of effects such as an inappropriate or narrow S5 conception of what constitutes morality, the S4 lack of recognition of moral issues and consequent neglect of them, the S5 lessening of moral standards, and for some managers, there may be S5 role conflict and ambiguity. Each of these cases may also reflect S5 dysfunction in terms of identity projection. Thus, we begin to recognize the emergent properties and systemic consequences of the implicit socialisation processes that create the conditions for moral muteness. Additionally, in some situations, it may be perceived by some outside of the organisation as condoning a tolerant acceptance of inappropriate actor behaviour. The widespread nature of such dysfunctional S5 'muteness' was illustrated in a recent online survey (Economist Intelligence Unit, 2002) when more than half (51%) of executive respondents indicated that a significant barrier to improved

corporate governance was what was perceived to be cultural and or managerial hostility to whistle-blowing.

However, we may pay regard to the fallacy of normative determinism before suggesting that S5 values emanating from higher levels of recursion will solve all moral ills. Blake and Davis (1964) suggest that it is 'an idealistic misconception to suppose that moral reasons by virtue of their logic alone can inspire the feelings of obligation and desire that make people willingly adhere to moral standards.' In the recent case of Leeds United Football Club and episodes of drunkenness and allegations of racist assault etc by their players, although team manager David O'Leary may have wanted to inspire his players to acknowledge the value of, and act with high moral standards in their dealings with the club, the team, fellow players, fans and the public, it is evident that neither his nor the Chief Executive's (Ridsdale) exhortations were effective (or founded on complex logical argument.) However, moral ideas are no less likely to gain widespread following when small groups so closely identify with such ideas that they unwittingly champion them 'onwards, upwards and outwards' (Bird and Waters, 1989: 83). As such we may see S5 values of the S1 operational units spread onwards and upwards through the organisation.

Maintaining the sporting analogy, we may follow Thomsen (2001: 156-158) who suggests that, to the extent that players are motivated by a sporting ethic, it is not necessary for individual teams/clubs to introduce their own ethical codes as formal S2 guidelines. Similarly, to the extent that all clubs are motivated by a sporting ethic, it is not necessary for leagues or governing bodies to introduce ethical codes to guide clubs at the lower level of recursion. Assuming that problems of a general or recurrent nature are handled by league or governing body intervention or by the general sporting/social ethic, Thomsen's arguments suggest that ethical sports codes should mainly be targeted, located at and concerned with team/firm specific issues that the team is in a unique position to solve. Such codes then, having been established as a S3 resource, serve as a S2 policy coordinating or harmonising influence, establishing and communicating S5 values, underpinning S3 plans and facilitating S2 coordination and driving S1 activities at the lower level of recursion. Of course, not only is this emphasis on firm specific issues consistent with the so-called resource-based view of the firm which sees firm-specific resources as the fundamental rationale for the existence of firms (Wernerfelt, 1984, quoted in Thomsen (2001: 160)) but it also illustrates the necessary systemic coherence of S1 operational activities and meta-system functions relating to identity, values and purpose.

These latter views provide an affirmation of Werhane's assertion (1985) that 'organisations are moral agents' not merely in the consequentialist 'doing' sense, that is, in terms of outcomes produced by deliberate S1 corporate action, but also in terms of S5 purpose and values, S3/4 practices and processes (Collier & Esteban, 1999: 182). As such, we see the convergence of governance and moral governance in terms of their meta-systemic functions, and their centrality in developing the systemic coherence of meta-systemic and operational functions.

Conversely, we may illustrate the diverse nature of System 5 thinking and values that may underpin moral governance by attempting to interpret Beer's notions in terms of the moral frameworks and concepts of Kohlberg and Snell. In illustration, we consider Leeds United's relationship with sponsors in the aftermath of player arrests for alleged assault of Asian students. The actions of Leeds may have included notifying major sponsors of events as they were unfolding – 'keeping them in the picture' – but those actions may have been invoked for a variety of different reasons that may be interpreted and distinguished using Kohlbergian concepts. For

example, action taken in fear of retribution by sponsors, which retribution could take the form of termination or non-continuation of sponsorship arrangements, may be regarded as reflecting Level 1 reasoning in Kohlberg's framework. Level 2 reasoning may have resulted in Leeds seeking to serve its own interest, in the belief that sponsors would act or react in their own interest regardless of what Leeds did.

Action calculated to promote a favourable self-image by maintaining good relationships with key gatekeepers, that is, to please or find favour with sponsors in serving their interest would reflect Level 3 moral reasoning. However, the existence of motivation to build a relationship with, or to gain the trust of sponsors as stakeholders by respecting and reliably upholding their legal and contractual rights, or to seek to address the anticipated needs and expectations of those sponsor stakeholders with formal rights and entitlements, would reflect Level 4 reasoning. Moving beyond consideration of only those sponsors or stakeholders who have legal or contractual rights, and then seeking to understand the needs and the moral claims of all stakeholder groups, including fans, ethnic minorities or the game at large, would be redolent of Level 5 reasoning. Should Leeds have sought to meet social responsibilities beyond legal and social contractual duties, and to honour the moral claims of all stakeholder groups, it would reflect Level 6 reasoning. Leeds' moral reasoning and actions could be perceived as residing at each and all of these Kohlbergian levels, dependent upon the organisational actors and stakeholder group involved, affirming Snell's view (2000) that analysis should seek to develop a profile of the levels of moral reasoning-in-use by organisational entities rather attempt to categorise reasoning as being homogeneous or residing at one level. Of course, whatever the nature of moral reasoning and S5 thinking at the organisational level, moral behaviour at lower levels of recursion will likely reflect perceptions of espoused and actual values that emerge out of implicit socialisation processes.

SUMMARY

This paper has outlined a variety of views and alternative perspectives of governance and moral governance and has demonstrated the value of a systemic perspective and of Beer's framework in attempting to develop insights about the link between governance and moral governance. We note that Beer's conceptualisation of viability in organisations is based on cybernetic and systems concepts and a consideration of the systemic functions that contribute to systems viability. We also note, in Beer's conceptualisation, the role and functions of governance as being a sub-set of meta-system roles and functions: creating identity, building shared values and purpose, setting direction, steering; strategising, environmental scanning; providing resources and delegating authority for managerial and operational staff to act with autonomy and appropriate responsiveness in changing environments.

Beer would contend that organs, instruments, activities and processes of governance need to be effective in the sense that they establish or contribute to the maintenance of systemic identity and purpose(s) which have coherence, and which are projected, shared and accepted within and without the organisation by its internal and external constituents. That identity is obviously linked to the organisation's purpose, its raison d'être and its values. We may therefore conceive of organisations as moral agents not just in a consequentialist or utilitarian sense, in terms of outcomes brought about by S1 actions, but also in terms of S5 purpose and values, S3/4 practices and processes (Collier & Esteban, 1999: 182), that is, not just in terms of ends and visionary values, but means and missionary values.

Indeed, we have stated that effective organs of governance must balance the competing values and attentions of multiple stakeholders and constituents; of the S1 operational and theS3/4/5 meta-system; of the here and now and of the future. In deciding on strategic direction and goals for the organisation, and the behaviours that are acceptable in bringing about those goals, the processes of governance must deliberate on fundamental purpose and values and cultivate the values, moral reasoning and ethics that underpin appropriate and acceptable ends-oriented and mission-oriented behaviour – these are systemic issues of moral governance. As such, we confirm the convergence of governance and moral governance as meta-systemic functions, and we note their twin-role in developing the systemic coherence of meta-systemic and operational functions.

Additionally, we assert the usefulness of the related frameworks of Kohlberg and Snell in examining systemic features of governance and moral governance. We note how they can help surface insights about conceptual differences in the nature and level of meta-systemic S5 moral reasoning exercised by organisational actors, how such differences are reflective of organisational moral ethos, and how they may be affected by recursive socialisation processes operating within the organisation and at other levels within the wider system.

We conclude that enhanced understanding of the nature of governance and moral governance can therefore arise from the use of complementary frameworks, for example, those of Snell, Kohlberg and Beer. We note that such frameworks have the potential to mutually and beneficially inform one another of the systemic qualities and values based nature of effective governance.

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