Innovation, Technology, and Knowledge Management

Stefania Zanda

Building Efficient Management and Leadership Practices

The Contemporary Relevance of Chester I. Barnard's Thought in the Context of the Knowledge-Based Economy

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To my Grandma B., the greatest of all the great leaders

Series Foreword

The Springer book series *Innovation, Technology, and Knowledge Management* was launched in March 2008 as a forum and intellectual, scholarly "podium" for global/local, transdisciplinary, transsectoral, public–private, and leading/"bleeding"-edge ideas, theories, and perspectives on these topics.

The book series is accompanied by the Springer *Journal of the Knowledge Economy*, which was launched in 2009 with the same editorial leadership.

The series showcases provocative views that diverge from the current "conventional wisdom," that are properly grounded in theory and practice, and that consider the concepts of *robust competitiveness*,[1] *sustainable entrepreneurship*,[2] and *democratic capitalism*[3] central to its philosophy and objectives. More specifically, the aim of this series is to highlight emerging research and practice at the dynamic intersection of these fields, where individuals, organizations, industries, regions, and nations are harnessing creativity and invention to achieve and sustain growth.

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[1] We define *sustainable entrepreneurship* as the creation of viable, profitable, and scalable firms. Such firms engender the formation of self-replicating and mutually enhancing innovation networks and knowledge clusters (innovation ecosystems), leading toward robust competitiveness (E.G. Carayannis, *International Journal of Innovation and Regional Development* 1(3), 235–254, 2009).

[2] We understand *robust competitiveness* to be a state of economic being and becoming that avails systematic and defensible "unfair advantages" to the entities that are part of the economy. Such competitiveness is built on mutually complementary and reinforcing low-, medium-, and high-technology and public and private sector entities (government agencies, private firms, universities, and nongovernmental organizations) (E.G. Carayannis, *International Journal of Innovation and Regional Development* 1(3), 235–254. 2009).

[3] The concepts of *robust competitiveness* and *sustainable entrepreneurship* are pillars of a regime that we call *democratic capitalism* (as opposed to "popular or casino capitalism"), in which real opportunities for education and economic prosperity are available to all, especially—but not only—younger people. These are the direct derivative of a collection of top-down policies as well as bottom-up initiatives (including strong research and development policies and funding, but going beyond these to include the development of innovation networks and knowledge clusters across regions and sectors) (E.G. Carayannis and A. Kaloudis, *Japan Economic Currents*, p. 6–10 January 2009).

Books that are part of the series explore the impact of innovation at the "macro" (economies, markets), "meso" (industries, firms), and "micro" levels (teams, individuals), drawing from such related disciplines as finance, organizational psychology, research and development, science policy, information systems, and strategy, with the underlying theme that for innovation to be useful, it must involve the sharing and application of knowledge.

Some of the key anchoring concepts of the series are outlined in the figure below and the definitions that follow (all definitions are from E.G. Carayannis and D.F.J. Campbell, *International Journal of Technology Management*, 46, 3–4, 2009).

Conceptual profile of the series *Innovation, Technology, and Knowledge Management*:

- The "Mode 3" Systems Approach for Knowledge Creation, Diffusion, and Use: "Mode 3" is a multilateral, multinodal, multimodal, and multilevel systems approach to the conceptualization, design, and management of real and virtual, "knowledge-stock" and "knowledge-flow," modalities that catalyze, accelerate, and support the creation, diffusion, sharing, absorption, and use of cospecialized knowledge assets. "Mode 3" is based on a system-theoretic perspective of socioeconomic, political, technological, and cultural trends and conditions that shape the coevolution of knowledge with the "knowledge-based and knowledge-driven, global/local economy and society."
- Quadruple Helix: Quadruple helix, in this context, means to add to the triple helix of government, university, and industry a "fourth helix" that we identify as the "media-based and culture-based public." This fourth helix associates with "media," "creative industries," "culture," "values," "lifestyles," "art," and perhaps also the notion of the "creative class."
- Innovation Networks: Innovation networks are real and virtual infrastructures and infratechnologies that serve to nurture creativity, trigger invention, and catalyze innovation in a public and/or private domain context (for instance, government–university–industry public–private research and technology development coopetitive partnerships).
- Knowledge Clusters: Knowledge clusters are agglomerations of cospecialized, mutually complementary, and reinforcing knowledge assets in the form of "knowledge stocks" and "knowledge flows" that exhibit self-organizing, learning-driven, dynamically adaptive competences and trends in the context of an open systems perspective.
- Twenty-First-Century Innovation Ecosystem: A twenty-first-century innovation ecosystem is a multilevel, multimodal, multinodal, and multiagent system of systems. The constituent systems consist of innovation metanetworks (networks of innovation networks and knowledge clusters) and knowledge metaclusters (clusters of innovation networks and knowledge clusters) as building blocks and organized in a self-referential or chaotic fractal knowledge and innovation architecture (Carayannis 2001), which in turn constitute agglomerations of human, social, intellectual, and financial capital stocks and flows as well as cultural and technological artifacts and modalities, continually coevolving, cospecializing, and

cooperating. These innovation networks and knowledge clusters also form, reform, and dissolve within diverse institutional, political, technological, and socioeconomic domains, including government, university, industry, and non-governmental organizations and involving information and communication technologies, biotechnologies, advanced materials, nanotechnologies, and next-generation energy technologies.

Who is this book series published for? The book series addresses a diversity of audiences in different settings:

1. *Academic communities*: Academic communities worldwide represent a core group of readers. This follows from the theoretical/conceptual interest of the book series to influence academic discourses in the fields of knowledge, also carried by the claim of a certain saturation of academia with the current concepts and the postulate of a window of opportunity for new or at least additional concepts. Thus, it represents a key challenge for the series to exercise a certain impact on discourses in academia. In principle, all academic communities that are interested in knowledge (knowledge and innovation) could be tackled by the book series. The interdisciplinary (transdisciplinary) nature of the book series underscores that the scope of the book series is not limited a priori to a specific basket of disciplines. From a radical viewpoint, one could create the hypothesis that there is no discipline where knowledge is of no importance.
2. *Decision-makers—private/academic entrepreneurs and public (governmental, subgovernmental) actors*: Two different groups of decision-makers are being addressed simultaneously: (1) private entrepreneurs (firms, commercial firms, academic firms) and academic entrepreneurs (universities), interested in optimizing knowledge management and in developing heterogeneously composed knowledge-based research networks, and (2) public (governmental, subgovernmental) actors that are interested in optimizing and further developing their policies and policy strategies that target knowledge and innovation. One purpose of public *knowledge and innovation policy* is to enhance the performance and competitiveness of advanced economies.
3. *Decision-makers in general*: Decision-makers are systematically being supplied with crucial information, for how to optimize knowledge-referring and knowledge-enhancing decision-making. The nature of this "crucial information" is conceptual as well as empirical (case study-based). Empirical information highlights practical examples and points toward practical solutions (perhaps remedies); conceptual information offers the advantage of further-driving and further-carrying tools of understanding. Different groups of addressed decision--makers could be decision-makers in private firms and multinational corporations, responsible for the knowledge portfolio of companies; knowledge and knowledge management consultants; globalization experts, focusing on the internationalization of research and development, science and technology, and innovation; experts in university/business research networks; and political scientists, economists, and business professionals.

4. *Interested global readership*: Finally, the Springer book series addresses a whole global readership, composed of members who are generally interested in knowledge and innovation. The global readership could partially coincide with the communities as described above ("academic communities," "decision-makers"), but could also refer to other constituencies and groups.

Elias G. Carayannis

Preface

This research highlights the pillars on which the function of leadership rests and the relationships between leadership, the quality of the management process, and business results through analysis of Barnard's thought. Why is the thought of Chester Barnard at the center of our research? Anticipating the times, Barnard was the first to conceive management in the modern sense, shifting the focus from management methods and tools to the executive and manager. The executive is the key to building an effective and efficient productive system. Leadership becomes an expression of the centrality of the executive's role; it becomes the essence and substance that nourishes all the other managerial functions: planning, control, and organization. However, the greatness of his thought is best expressed in the greatly innovative and modern element: the creation and maintenance of a cooperative system. This management function consists in the acquisition and maintenance of services provided by organization participants, making use of incentives and persuasion. The maintenance of an effective and efficient organization involves the capacity to adapt management of the numerous, different external environment variables, the vital dynamic elements of the current knowledge economy. It also requires the establishment of a system of internal organs that operate in a coordinated manner, with high levels of productivity, in order to satisfy the company's interests and those of individual participants simultaneously. According to our interpretation of Barnard's thought, creating and maintaining a coordinated, cooperative business system capable of achieving the objectives of survival and development depends on the existence of an effective management process. In addition to shaping the basic managerial functions, the leadership styles adopted directly influence the "power of attraction and motivation" of the leader. The extent of this phenomenon depends on the extent to which leaders can: inspire feelings of community and cooperation in organization members; arouse admiration, emulation, and confidence in participants; and be perceived by the various members as a "growth instrument," that is, as an active source of operational support and potential satisfaction of their motivations. Finally, the power of attraction and motivation of the function of leadership, combining and working as a system with the conditions of organizational structure and operation determined by the management functions, affects the "outcome variables" (qualitative and quantitative). The influences on "outcome variables" depend on the level to which a cooperative socioeconomic system characterized by shared goals and a sustainable balance between effectiveness and efficiency is developed and maintained. This is linked to the achievement of a satisfactory quality of life within the organization, and it is also related to the degree to which it is possible to realize effectiveness (economic and financial results, indices of physical and technical productivity, lasting economic equilibrium, survival, growth, etc.) and efficiency in terms of adequate satisfaction of the motivations and objectives of the various participants. This enlightened and anticipatory Barnardian approach highlights the importance of "shared objectives" and "consent," which results in reachable qualitative, quantitative, and high-performance company benefits. It leads, in substance, to the modern idea of the productive system. Creating and maintaining a cooperative system and leadership become the supporting pillars for the development of the implicit and explicit participation required to spread a true participatory culture, in line with the evolution of the knowledge economy.

Barnard's doctrine focuses attention not primarily on techniques and method, but on man: the executive becomes a real agent of change in his choices, his values, and his capacity to share knowledge. This approach appears absolutely modern, stimulating reflection on the still current need for profound change in the style of management and in the choice of the reference values of company leaders. For us, Barnard's studies are the prelude to the process taking place in the Third Industrial Revolution. Borrowing part of an expression of Jeremy Rifkin (2011), it is the sunset of those who are inspired by closed and proprietary hierarchical thinking and the rise of a new transparent and open generation that manifests lateral thinking that welcomes cooperativism, the sharing of objectives, and participatory leadership as basic values.

Rome, Italy Stefania Zanda

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I would like to thank first of all the great *C.I. Barnard* for having enlightened, inspired, and involved me in the wonderful world of *leadership*; *Professor Ernersto Chiacchierini* for everything he has taught me; *Professor Manlio Del Giudice*, whose advice has been invaluable in this research; and Graham Ellis, philologist of the English language.

Contents

About the Author

Stefania Zanda is assistant professor in the Department of Management, School of Economics, Sapienza University of Rome.

After graduating in economics, she was coordinator for master's in entertainment management and management development for LUISS Management School of Rome, participating in various research projects on organizational behavior and human resources and then company organization, work organization, and production cycles. She then worked in teaching and training for various courses at Sapienza University including the *quality management* postgraduate course and for companies in the private and public sectors.

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She was responsible for the project *Quality in Public Television* (*Qualità e Sicurezza nell'Audiovisivo)*, School of Economics Research, Sapienza University—RAI convention.

She is a member of the Quality Monitoring Committee Team of MANIMP (Management delle Imprese) for the *business management* postgraduate course in the Department of Management, School of Economics, Sapienza University of Rome. She is a reviewer for the *International Journal of Environment and Health* (*IJEnvH*) (*Inderscience Enterprises Ltd & UNESCO*). She is also a member of SIM (Società Italiana di Merceologia).

For the last ten years, her main interest has been total quality management and leadership, involving collaboration with important companies and the completion of various research projects.

Chapter 1
Objectives and Research Methodology

Abstract Our main aim is to analyze the thought of Chester Barnard on the creation and maintenance of a cooperative system, the executive process, and the function of leadership, and to examine its relevance for modern studies in economics and business administration.

1.1 Structure of the Present Work

Our main aim is to analyze the thought of Chester Barnard on the creation and maintenance of a cooperative system, the executive process, and the function of leadership, and to examine its relevance for modern studies in economics and business administration.

Chapter 2 outlines an effective executive model, analyzing modern doctrine on the subject, to be used also as a benchmark for the evaluation of Barnard's contribution to management theory. For our objective, the reference model should permit evaluation of Barnard's theoretical system in relation to the economic, social, and moral requirements of the current knowledge-based economy. Now knowledge has become a strategic production factor and "intellectual managerial capitalism" has developed to influence significantly the organizational structure, management models, and results of modern enterprises.

In later chapters, we analyze the author's thought in relation to his main works,[1] which knowingly or unknowingly have influenced many generations of managers

[1] The fundamental work of Barnard (1938) is *The Functions of the Executive*, Harvard College, Mass. The second edition was in 1948 and also includes in the appendix a series of "Selected writings" (eight chapters). The first chapter regards *some principles and fundamental considerations in relations with personnel* (speech given at Fifth Summer Conference Course in Industrial Relations, Graduate College, Princeton University, 20 September 1935); the second chapter concerns *the dilemmas of leadership in the democratic method* (paper read as the Stafford Little Lecture, at Princeton University, 1939); the third chapter concerns *the nature of leadership* (synthesis of two speeches given on 24 January 1940, printed privately in 1940 and reprinted in *Human Factors in Management*, ed. Schuyler Hoslett, Park College Press, 1946); the fourth is about *concepts of organization* (revised article entitled *Comments on the Job of the Executive*, in *Harvard Business Review*, vol.18, n.2 1940); the fifth deals with *planning for a world government* (reprinted from *Approaches to World Peace*, collection edited by L. Bryson, L. Finkelstein and R.M. MacIver, copyright 1944 of the *Conference on Science, Philosophy and Religion in Their Relation to the*

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and scholars, and which are among the most cited in the field of studies on the executive process and leadership.[2]

More precisely:

(a) we outline the economic, social, and cultural environment in which the conceptions of Barnard matured (Chap. 3): the reference is to the 1930s; we analyze the contribution of the management model proposed by the author to make the capitalist system sustainable;
(b) subsequently we illustrate the author's contributions to understanding:

   – the executive process, the quality of leadership, and the systematic nature of the executive process (Chaps. 4 and 9);
   – formulation of the general purposes and objectives of enterprises; the role of the organizational structure and communications system in the coordination and regulation of the business system (Chap. 5);
   – organizational and individual purposes and the functions of executives in making the two objectives compatible (Chaps. 5 and 7);
   – the source of authority in organizations and its role in relation to the behavior of their participants (Chap. 6);
   – the creation and maintenance of a cooperative system by finding a balance between incentives supplied by the company and contributions provided by organization members (Chap. 7);
   – effectiveness and efficiency as key pillars of the cooperative system, whose simultaneous realization is fundamental for the success of organizations (Chap. 8);
   – the role of leadership in the executive process and the characteristics of an effective and efficient executive (Chap. 9).

Chapter 10 summarizes the contribution of this research.

Democratic Way of Life, Congress held at Columbia University in September 1943); the sixth chapter is a review of the book by Barbara Wotton on "*Freedom Under Planning,*" Chapel Hill, University of North Carolina Press (the review was published in *Southern Economic Journal*, vol. XII, n. 3, January 1946); the seventh concerns *the training of executives* (speech given at a meeting with members of the faculty of the School of Business and of the Division of the Social Sciences, University of Chicago, 4 October 1945); the eighth chapter regards *functions and pathology of status systems in formal organizations* (taken from *Industry and Society*, edited by W. Foote Whyte, McGraw Hill Book Company Inc., 1946).

Among the other works of the author, we have referred to: Barnard (1945), pp. 175–182; Barnard (1946, 1948, 1958), pp. 1–13.

The 1948 edition of *The Functions of the Executive* is translated into Italian with the title: *Le funzioni del dirigente. Organizzazione e direzione*, UTET, Torino, 1970.

[2]For analysis of Barnard's thought see: Andrews (1968), Anicich (2009), Callender (2009), Dunphy and Hoopes (2002) pp. 1024–1028; Gabor and Mahoney (2010), Gehani (2002), pp. 980–991; Golembiewski (1988), pp. 275–300; Golembiewski and Kuhnert (1994), pp. 1195–1238; Keon (1986), pp. 456–459; McMahon and Carr (1999), pp. 228–240; Novicevic et al. (2005), pp. 1396–1409; Scott (1982), pp. 197–201; Scott (1992); Wolf (1973, 1974).

Chapter 11 analyzes the relevance and originality of Barnard's thought in relation to the economic, social, and moral requirements of the current knowledge-based economy.

Finally, in Chap. 12, we give our personal view on important elements of organization structure and operation able to strengthen the cooperative business system, which were neglected or little emphasized by Barnard, in the light of the most recent scholarship on the quality of leadership.

1.2 The Fundamental Questions of the Research

The research questions we have posed are the following: what is Barnard's view of the executive process and, in particular, leadership? What are the fundamental elements that influenced the quality of an executive in the past and now? What are the main, original teachings that the author has provided for scholars and executives on the executive process and leadership? What elements were overlooked or underemphasized by Barnard in the development of his theory, considering the evolutionary dynamics in which the business organizations of the knowledge-based economy operate?

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Chapter 2
Outlines of an Effective Management Model in the Light of the Economic, Social, and Moral Requirements of the Knowledge-Based Economy

Abstract This chapter outlines an effective executive model, analyzing modern doctrine on the subject, to be used also as a benchmark for the evaluation of Barnard's contribution to management theory. For our objective, the reference model should permit evaluation of Barnard's theoretical system in relation to the economic, social, and moral requirements of the current knowledge-based economy. Now knowledge has become a strategic production factor and influences significantly the organizational structure, management models, and results of modern enterprises.

2.1 Quality of Leadership and the Decision-Making, Control, Organization, and Execution Processes

The quality of the decision-making, control, organization, and execution processes taking place in companies, all companies, *for-profit* and *non-profit* (based on solidarity, on charity, etc.), depends, to a large extent, on the quality of the model of leadership adopted, which is the main focus of our analysis.

As will be seen in more detail in the following chapters (particularly Chaps. 4 and 9), the executive process (or management process) consists of a system of coordinated functions: planning, control, organization, and leadership. Leadership is a variable that influences and shapes the company's *organizational structure* (system of roles to be assigned to people, lines of influence system that coordinate the various roles, and information system that feeds the decision-making, execution, and control processes) and the *overall operation* of the company that manifests as a specialized and coordinated set of decisions, controls, and operations jointly directed towards the realization of certain purposes.

The management model adopted is a *strategic variable* that affects "organizational health" and the results achieved. The strategic importance is evident from the fact that the model affects the behavior of the entire company, operating on a general level. An executive process based on an effective leadership model positively influences the *satisfaction* and *productivity* of employees by creating mechanisms that develop the imagination, creativity, innovation, energy, and development of

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workers.[1] Conversely, an executive process, inspired by inadequate leadership, depresses levels of satisfaction and productivity, promoting lack of coordination, disorder, progressive loss of vital energy, and sometimes disintegration and the failure of the company/disappearance of the company from the socio-economic scene.[2]

In particular, an effective executive process creates "the conditions of organizational structure and business operation" that realize the *fusion* between the *company's interests* (identifiable with the requirements of organizational roles) and the *interests of those participating in the organization*. They do this by stimulating the development of an "attractive force" that motivates employees to identify with the objectives and tasks set by the organizational roles. Employees then feel that this process is realized, not by replacing individual goals by those of the company (the process of socialization, often based on authority and the manipulation of consciences), but by significantly and reciprocally adapting roles, objectives, and company functions to the motivations and interests of those in the various organizational positions. This is how the "fusion process" is developed.[3]

In other words, an effective executive process tends[4] to realize an "adaptation model" in the management of the company, which requires that the integration/fusion of company and individual objectives is realized through progressive reciprocal *adaptation* and therefore different from what happens using the traditional

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[1] Likert (1967), chaps. 3, 7, 8, and 9; Nye (2008), chap. I.

[2] Goshal and Moran (2006), p. 17.

[3] From this perspective, the manager performs a role that should not be seen as exercising authority aimed at inducing others "to do certain things" (essentially to obey orders and directives), but, above all, should be seen as creating conditions of organizational structure and operational functioning that allow the concrete definition of company roles and lines of influence between them that satisfy company and employees' interests simultaneously.

These concepts were first explained and spread by Bakke (1950, 1953) and Bakke and Argyris (1954).

Despite the fact that many decades have passed, the basic concepts of the "fusion process" have not yet been well absorbed either in theory or in practice; often the fusion process is confused with the "socialization process" (individual objectives are replaced by those of the company), and at times, it is interpreted as the completely opposite process of replacement of company objectives by personal goals (prevalence of the individual dimension over the social). In essence, the emphasis and focus of the analysis have not been put properly on the fact that the task of the effective manager is to identify and design roles, relationships, and activities to *simultaneously satisfy* the motivations of employees and company interests at all levels of the organizational structure.

[4] The term "tend" is used to underline that the fusion of interests process is hard to realize and can be achieved at different levels: the further you move away from the pure model of "socialization," the more effective management becomes in terms of personal motivations. In essence, to design and develop management models of adaptation is, in practice, an arduous and difficult task, requiring much time and high expenditure of energy; this is also because it takes time to modify the conduct of organization man: managers and employees are conditioned by previous experience and as a result, they are able to gradually learn to operate according to new management philosophies; the forces opposed "to learning" are many and on the best hypothesis, slow down and still hinder the learning process: this means that managers and employees can "learn" to operate according to new philosophies very gradually, over a period not objectively definable *a priori*.

"socialization model".[5] The motivating power of a management model is judged by the extent to which this adjustment is achieved by integrating company objectives with those of the individual.

In today's society and in modern companies, despite the progress made in the field, it is still difficult to realize the adaptation model fully. It is even more arduous when the aim is to achieve this adaptation at lower levels of the company hierarchy, where it is difficult to develop full participation in decision-making, self-direction, and self-control. In any case, the problem of reconciling the hierarchy of power with the need for equality remains unresolved, or solved only to a very limited extent. Taking society as a whole (but this can be extended to companies) it is impossible not to share the following thought of Aron. Complex societies necessarily imply a diversity of tasks, whose complexity and dignity vary greatly. There is no society that does not seek to achieve collective participation in political life, but there is not even one that is able to ensure everybody equality in the task performed or the prestige accorded. All societies and all regimes represent an effort to reconcile hierarchy with equality, the hierarchy of power with equal human dignity.[6]

However, let us proceed in order and briefly specify the characteristics of traditional management models and, subsequently, the pillars that support the most valid modern management models in terms of productivity, employee satisfaction, and the survival and development of the company.

2.2 Characteristics of Traditional Management Models

Traditional management (of Taylor type and the "theory of the administrative organization" of work supported mainly by Fayol,[7] Gulick,[8] Mooney and Reiley,[9] and Urwick)[10] is inspired by a "negative philosophy" regarding the behavior of employees in their work, which McGregor defines "Theory X".[11] More precisely, the traditional manager intimately shares the following assumptions on the behavior of individuals who work in companies (but often not externalizing them): the average organization man does not love work and has the innate tendency to "drag his feet" and "slow things down"; is hostile to change and looks for the gratification of his needs outside the company; he does not aspire to responsibility. In addition, the manager inspired by "Theory X" is convinced that intelligence, imagination, and creativity are not very common among men and therefore employees, on average,

[5] For a discussion of socialization and adaptation models and their effectiveness, see Barrett (1970).

[6] Aron (1971), pp. 69–70.

[7] Fayol (1956).

[8] Gulick (1937).

[9] Mooney and Reiley (1931).

[10] Urwick (1937, 1944, 1952).

[11] McGregor (1966), pp. 5–16; (1960), chap. 3.

are unintelligent, badly informed, and lack creativity and initiative. Consequently, the manager permeated by this philosophy has little confidence in the intellectual and working capacities of employees and considers it inevitable to plan their tasks analytically and continuously check their work. This, evidently, involves the centralization of the decision-making process, the extensive use of authority, and the application of "external control" and analysis of human behavior.

The philosophy underlying "Theory X" tends to govern human conduct with a wide range of strategies; this range is limited at the extremes by two precise motivational approaches:[12]

(a) *hard management*: based on the use of authority and sanctions, to make "human nature docile," that is, to induce people to follow orders (the manager's task can therefore be summarized as follows: "force others to do certain things");
(b) *soft management*: still relies on centralizing decision-making and the use of authority; but it is hoped to obtain the docility of the employee with rewards and concessions that, on the one hand, increase short-term employee satisfaction, but on the other, depress the long-term level of productivity and company results.

The two systems do not work in the long run in that they do not simultaneously create high productivity and high levels of satisfaction.[13] In addition, they do not develop human resources and, in particular, the professional skills, creativity, innovation, and initiative (entrepreneurship) of individual employees.

Traditional models depend, as mentioned, on demonstrations of authority. This is the fundamental instrument of coordination and direction to achieve power within the company. Its use is generally justified by the need to respect the following inescapable logical sequence: the company has objectives; from these objectives are derived the correlated functions to be performed to achieve them; from the functions are derived the tasks/roles to be assigned to employees; from the tasks descend responsibilities; to face these responsibilities adequately, it is essential to assign a "corresponding degree" of authority, to permit managers to impose their will (company power).[14] Even if it is considered useful that authority is accompanied by example and persuasion, the classical theory of the organization affirms that an increase of authority necessarily leads to an increase of power within the organization.

[12] See McGregor (1966), p. 26.

[13] Likert (1967) and Likert and Seashore (1963).

[14] Urwick (1963), p. 71. For criticism of the principle of correspondence between responsibility and authority, see McGregor (1960), chap.12.

2.3 New Management Models for the Needs of the Knowledge-Based Economy

2.3.1 *The Main Factors That Have Stimulated Change in the Economy and Society*

Between the mid-1960s and the late 1980s, "*financial shareholding managerial capitalism*" was establishing itself, characterized by the "return" of shareholders (especially institutional investors) in the management of large enterprises, with strong conditioning of top managers and the adoption of strategies to maximize profit and shareholder value with a short-term view.[15]

The financial economy became dominant with respect to the real economy. The management of large corporations was characterized by financial engineering operations of an increasingly speculative and less industrial–entrepreneurial nature. The "utility function" of the top management of large productive organizations was less and less oriented towards empathy and the common good; indeed these behaviors were regarded with suspicion (even in theory) and sometimes judged reprehensible; the main duty of an executive was the maximization of profits and the value of shares and not "social responsibility"; the latter could be practiced only insofar as it was compatible with the company's economic interest.[16] In the 1990s, shocking and not commendable behavior of "irresponsible businesses" occurred.[17]

In the last two decades of the twentieth century, there were changes that will, most probably, affect the management of companies in future and, more generally, the whole of society. They were changes inside the "revolutionary capitalist system"[18] connected to the so-called Third Industrial Revolution to respond to the need to control some new "knowledge" that appeared essential to manage enterprises successfully. As Galbraith observes,[19] in a socio-economic context, the power of control, in enterprises and society as a whole, generally belongs to the factor of production which is hardest to obtain or hardest to replace. More specifically it adheres to the one that has the greatest inelasticity of supply at the margin. In this way, the new economy makes its appearance within the capitalist system, based on the possession of "knowledge" as the strategic factor in the management, survival, and development of enterprises.[20] The new economy is emerging at a very slow but

[15] Lazonich and O'Sullivan (2000), pp. 38 ff.; Gallino (2005), p. 100; Dore (2009) p. 38 ff.; Zanda (2012), p. 119 ff.

[16] Levitt (1959), Friedman (1962, 1971).

[17] See Bakan (2004).

[18] According to Heilbroner and Thurow (2008), p. 250, the essence of capitalism order is to create change and this continuous change necessarily implies of every aspect of social, political, and economic life.

[19] Galbraith (1967), p. 56.

[20] See Del Giudice (2008).

continuous pace. Essentially the factor "knowledge" is influencing the behavior of institutions, and, in particular, the management of organizations.

Currently we are not at the eclipse of "financial shareholding managerial capitalism", but in the presence of a complex situation in which a more mature capitalism that might be called "intellectual managerial capitalism" is forming.

This is a system in which knowledge is the strategic factor for company success, *"in which top managers tend to be autonomous with regard to the interest of capital and free to pursue balanced goals of profitability, growth and social responsibility."*[21] There also seems to be a new cultural environment slowly taking shape that favors the awakening of people's consciences and especially of managers. Managers are increasingly oriented towards sincere and honest social responsibility strategies that produce not only correct outward behavior respecting laws, but, above all, the choice of ethical conduct based on an inner moral attitude that cannot be imposed by law, but which the human being has to his fellows.[22]

The main factors that have stimulated this change can be summarized as follows:

(a) development and use of new scientific and technological knowledge which creates significant technological and organizational discontinuity with the past and which determines—in the words of Schumpeter—creative destruction in the economy.

It is a body of knowledge that appeared in the last decades of the twentieth century. It gave birth to the third industrial revolution and essentially concerns ICT and biotechnology, artificial materials, microelectronics, telecommunications, advanced robotics, and cybernetics. Such knowledge is likely to affect the chance of future survival and development of enterprises and their profit rates and financial security. This new scientific and technological knowledge is able to develop the production of goods and innovative services particularly appreciated by consumers and users.[23] The progress achieved in these areas will allow illnesses to be cured, people's physical and intellectual performance to be enhanced, and the general quality of life to be improved. New foods, new modes of communication, learning and education, and new forms of cultural and spiritual gratification will be created;

(b) more widespread use of the multimedia digital network accompanied by some changes in traditional markets.

The traditional market is being replaced by the multimedia network, which permits faster and more efficient communication, transactions, and management of human relationships and in a wider space. In particular, information retrieval, planning, production, commercialization, and marketing of enterprises are being strengthened. Imagination, creativity, and innovation processes

[21] Zanda (2012), p. 242.

[22] Küng (2011), p. 10.

[23] To investigate the relation between quality of technology and effectiveness of productive processes, see D'Ascenzo and Bellini (2010).

have been greatly developed, expanding and speeding up contacts between different cultures[24] and between people with different information and ideas to be synthesized to make better decisions. The digital network is now becoming more incisive and pervasive and helps to create two distinct socio-economic spaces globally, according to whether or not the connection to cyberspace exists. According to Rifkin[25] the gap between the possessed and the dispossessed is wide, but the gap between the connected and the disconnected is even wider.

With the passing of time the market has changed both as a concept and in substance. Conceptually, the market is no longer viewed as a well-defined geographical place, where people meet physically to trade or establish social relationships of various kinds. Today the market as a physical place is often replaced by the multimedia network that permits negotiation and remote virtual relations by which economic activities and social relationships are managed differently. On the second point, the type of exchange tends to change gradually; the operations that take place through the network concern much less the transfer of ownership of tangible and intangible assets and much more the access to or acquisition of the services of third parties through the payment of a fee or subscription;[26]

(c) the pre-eminence of the production of innovative services and the emergence of “light companies” which reduce investment in fixed capital.

A significant phenomenon that characterizes the knowledge-based economy is the increasingly high production of services compared to the production of material goods. In other words, we see the transition from a manufacturing type of industrial capitalism to a capitalism based on services. At the root of this change there is a system of factors ranging from the application of highly innovative technologies to the use of multimedia networks that permit rapid access to services provided by new technologies (upon payment of a fee); the primacy of social needs, respect and self-realization compared to physiological needs that can be satisfied especially with material goods, etc.

In the modern economy, companies tend, as far as possible, to become “lighter,” employing less fixed capital. As a result, fixed costs tend to decrease and to be replaced by variable costs linked especially with the acquisition of expertise and services provided by internal personnel and by other companies that operate externally. In this way companies lose rigidity and acquire the ability to adapt promptly and adequately to even sudden changes, new technologies, new opportunities proposed by the environment and, in particular, to sudden changes in demand from consumers and users of services. The problem of obsolescence of fixed assets is also avoided, which, in the current economy of scientific-technological progress, is very significant. Through these management strategies, the system of risks is mitigated and made acceptable. If the

[24] See Del Giudice et al. (2012).

[25] Rifkin (2001), pp. 13–14.

[26] Rifkin (2001), p. 5 ff.

company is able to rent all its technical capital facilities (buildings, plant, machinery, and other capital equipment), it generates the so-called empty enterprise (an organization that does not have fixed assets among the items of the balance sheet). This enterprise is characterized by a maximum level of elasticity and a minimum level of risk. All of this, naturally, can only take place provided that the company has personnel with the high strategic management skills necessary to determine the choices of technology, markets, products, competitive factors, and the relationships with suppliers, partners, and internal and external specialists;

(d) the adoption of marketing policies to achieve lasting business relationships with individual customers.

The technologically advanced modern enterprise operates in a complex environment characterized by dynamism and unpredictability. Strategic, tactical, and operational decisions have become very difficult and their final results are very uncertain and definable only by calculating probabilities; often it is necessary to operate in a "state of uncertainty," where these calculations are not even possible.[27]

The company's primary objectives are the creation of value (goods and services) required by customers[28] with the constraints that both the economic equilibrium of business and the reasonable satisfaction of the other stakeholders' expectations are respected. Considering that the gratification of the expectations of organization participants is realized with "what the customer pays," it is clear that relations with customers (consumers and users) are crucial for the survival and development of companies.[29]

Given that customer demand has become increasingly unpredictable, that discretionary consumption has tended to increase, that there is widespread and systematic use of the multimedia network to make exchanges, it has been essential for companies to adopt new policies and marketing techniques. Faced with a context so profoundly changed, it has been essential to adopt an appropriate strategic response.[30] Above all, it has been necessary to change the basic orientation of marketing: commercial action is no longer focused, as in the past, on the product to be sold, on market share to be realized, and on the need to produce the sales effort of a particular product for an indistinct mass of customers. The marketing strategy, conversely, has increasingly focused on the need to develop a lasting business relationship with the individual customer, who becomes the potential buyer of product/service flows according to his variable needs over time.

No longer, therefore, commercial policies aimed at a mass of customers to induce them to purchase one or more particular products; but systematic

[27] Zanda (2015), p. 48.

[28] Davis (1951) and Martin (2010), p. 19 ff.

[29] For a historical re-reading of the evolution of enterprise–market relationships, see Baccarani et al. (2015), pp. 450 ff.

[30] See Del Giudice and Della Peruta (2011).

marketing programs that aim to know the customer from various points of view, to get closer, and tie him to the company and its current and future products. An effective marketing strategy creates customer loyalty and lasting relationships based on mutual convenience.[31]

This strategy also has the effect of increasing the value of a company's "relational capital" and to project the reference time horizon system of business decisions to the long term. These phenomena are highly relevant, both because they contribute to increase the value of the economic capital of enterprises and partly because they tend to counteract the pernicious tendency of "financial managerial capitalism" in which executives operate with a short or extremely short-term perspective, often without regard to the *going concern* principle, which is the basis of every good and responsible management theory.

(e) development of innovative and cost-effective business in the field of culture.

This phenomenon regards the use of creativity, imagination, and new scientific and technological knowledge in the production of communications, sensations, experiences, emotions, and socialization processes.

The culture industry has developed significantly over the past decades. It is now a very promising sector for enterprises oriented towards innovation, based on the new technologies previously indicated. In addition to affecting people's health, length of life, and their physical and intellectual performance, these technologies also influence and will significantly affect the field of culture, also through the support of the multimedia network.

According to Rifkin, an economic order that increasingly "occupies" the field of culture (cultural capitalism) is establishing itself in more evolved socio-economic contexts; in particular, there is the wide-ranging commercialization of culture, also because the human needs related to culture are virtually unlimited and can be gratified through many technical solutions.[32]

It is highly probable that, with time, the new economy, which tends to occupy the space of culture, will develop new businesses in great demand by customers, which can offer information, education, entertainment, emotions, new dreams, gratification of various kinds, and many types of socialization. Probably everything will be realized by creating virtual worlds, available using the multimedia network. They will be new frontiers to cross in terms of satisfaction of needs and motivations.[33]

Finally, it should be noted that companies that produce innovative cultural services will have to include managers in their staff with creativity, imagination, and expertise in various fields in order to carry out their activities successfully.

[31] See Charan (2009).

[32] Rifkin (2001), pp. 11–15 and 137–167.

[33] Rifkin (2001), pp. 140. The author (p. 145) also states that film, radio television, the recording industry, global tourism, shopping malls, destinations, entertainment centers, themed cites, theme parks, fashion, cuisine, professional sports, games, gambling, wellness and simulated worlds, virtual realities, cyberspace are the front line commercial fields in any age of access.

Their fundamental problem will no longer be to find out which material goods people lack, but to understand what sensations, emotions and experiences, and intellectual and spiritual gratification their clients want to try.

2.3.2 Knowledge Becomes a Strategic Factor of Productive Activity and Develops "Intellectual Managerial Capitalism"

The phenomena described above have caused the necessity to include in the company's organizational framework a system of information and expertise in various fields: technology, marketing, finance, psychology, law, accounting, etc.[34] In particular, in the knowledge-based economy the skills of strategic management have become important for the success of businesses. In the current competitive environment, these are now essential to: (a) generate creative activities in order to develop the vision of the company mission, to specify strategic objectives and identify the activities to realize them; (b) organize and assemble management processes efficiently in order to unite the effects of the expertise used in operating activities; (c) create an information system which can support decision-making, execution, and control processes; (d) develop leadership and coordination regarding the various specialists in the organizational framework, in order to develop cooperation, sense of community, and feelings of identification with the organization and its top management.

Of course, the effectiveness of a strategic management process depends on the quality of the moral codes of corporate leaders, on the principles that inspire their management philosophy regarding the general objectives of the enterprise, the role of executives, the assumptions on behavior and on the technical and intellectual capacities of employees, on incentive systems to adopt to satisfy both corporate interests and the interests of the various participants in the organization simultaneously. All these elements are crucial for the results that the company can achieve over time: quality of goods and services, customer satisfaction, respect and safety of workers, integration of the interests of the various stakeholders, productivity levels, economic and financial equilibrium, financial solidity, market share, etc.[35]

In order to realize an effective management process, the function of leadership is crucial. This function, as noted earlier, has priority over planning, control, and the organization process in the sense that it shapes them, creating the structure and operating conditions that influence the qualitative and quantitative result variables.

Therefore good quality leadership is based on positive assumptions about the capacities of employees and their behavior at work. It aims to activate the participation of specialists in the decision-making system; it uses authority only in exceptional

[34] On the contribution of partnership within government—university—industriy *R&D* for managing the intellectual capital, see Carayannis et al. (2014).

[35] Zanda (2016).

cases as an instrument of direction and control; it produces a significant "attractive force" for participants, encouraging them to pursue high performance targets; it is capable of combining economics and ethics, and it perceives the company as a community aiming to achieve the common good. Effective leadership shapes the functions of planning, control, and organization in the following ways:

– planning function: the decision-making power is divided between a team of specialists in different places in the organizational framework. The company system therefore operates with the contributions offered by numerous people. The company decision process finds in the company's top management the primary source of impulse, direction, coordination, and regulation. Thus in well-organized enterprises a pluralistic decision-making structure is created and organically integrated in the sense that both the relations between organs of different hierarchical levels and the relationships between the units participating in a particular decision process are organic, i.e., the influence is reciprocal and multilateral. This contributes to develop business effectiveness and efficiency and to stimulate the cooperation of specialists who participate in decision-making;
– control process: the regulation process is activated to maintain operations oriented towards the general company objectives. It produces stability which, however, does not correspond to the "static equilibrium" of closed systems, typical of the physical world. It is, conversely, a situation in which the control processes re-orientate the system to enable it to achieve certain levels of order and stability and also development processes lead to operational differentiation of a higher order.[36] Ultimately the adjustment processes allow the organizational system, on the one hand, to neutralize disorder and the tendency to "positive entropy" and, on the other, to develop an "objectives oriented" evolution, through the insertion of new energy (new specialist knowledge, additional creative skills, etc.).
– A participative management style conflicts with the traditional principles of management involving the centralization of decisions, the detailed programming of employees' tasks, and analytical control of their work. Therefore, adopting a pluralistic and organically integrated decision-making system, the fundamental task of the executive is not to "make employees docile," to direct them and force them to respond promptly to orders and management commands. Instead its main task is to create the organizational structure and operating conditions that allow subordinates to achieve high performance targets and satisfy personal needs in carrying out their assigned roles simultaneously. Thus the participatory executive does not share the principle (so dear to classical scholars of organization) that for management to be effective and efficient it must be based, fundamentally, on authority and analytical control, with a hierarchical leader who must impose and enforce certain lines of action in his area of competence. It follows that the participatory executive will not yield to the temptation to use authority in a systematic way, but will use it only in exceptional cases;[37]

[36] von Bertalanffy (1971), p. 349.

[37] Simon (1958), p. 203.

– function of organization: those responsible for company management work to redesign the organizational structure (roles and lines of influence between the various organs) according to a model that favors both the decentralization of decisions based on skills, and the development of a pluralistic decision-making system and group controls. In particular the focus is on two related objectives: (a) to apply and enhance talent in work, imagination, and specialist skills of employees; (b) to motivate employees by means of rewards intrinsic to work.
– This implies that the tasks assigned should be significant: the employee must see that the more he realizes the institutional objectives, the more he is able to satisfy his needs for knowledge, skill, success, prestige, and self-realization. To this end, the leaders of organizations, as a rule, rely on self-direction, self-control, and coordination of decisions and controls.
– It is well known that the fundamental problem of the executive (past, present, and future) is to integrate the objectives and interests of employees with those of the company. According to the traditional management approach this integration can be effectively achieved by centralizing decision-making, by the use of authority and by rigid inspectional control. According to the conception that is being established in the context of the knowledge-based economy, integration is achieved more efficiently if leaders start a process of liberation of human potential, the development of creativity, the removal of obstacles, supporting professional growth, and guiding employees.[38] Currently, in successful enterprises, it can be seen that management increasingly tends to govern organizations applying mainly the so-called adaptive model (or fusion model), which requires the integration of individual and company objectives through the progressive adaptation of the latter to the former; and not vice versa as in the traditional "socialization model" in which employees are induced to internalize company values and objectives and tend to compress individual ones.

2.3.3 Characteristics of New Management Models

In Western society, the problem of motivation has shifted: in fact, since physiological and security needs are generally satisfied, the emerging motivations are social, for self-esteem and respect from others. If these needs are not met at work through organizational restructuring and change of decision-making and control processes, there is inevitably the development of employee dissatisfaction and declining efficiency. In other words, if companies continue to use the traditional approach to management (planning and controlling the conduct of employees rigidly and creating organizational structures that hinder the satisfaction of social needs, self-esteem, and the esteem of others) high conflict, progressive decrease in productivity, avoidance of responsibility, and resistance to change are to be expected.

[38] McGregor (1966), pp. 15 and 212 ff.

Modern management models reject the principle that increased formal authority automatically corresponds to an increase in the power of influence. The most enlightened doctrine is inclined to believe that this increase may even correspond to a "restriction" of power. It is recognized that in companies the real power of influence of a manager depends only in part on the formal authority assigned; while it derives largely from the acceptance of this influence by employees.[39]

Acceptance is not an element conferred by organizations with a formal act, but appreciation that the manager has to earn every day, working in the field, creating the organizational structure, and operating conditions that develop a "power of attraction and motivation" in workers. More precisely, this appreciation comes from the ability to create a management model that, as we have said, simultaneously increases productivity and employee satisfaction, through the realization of a fusion process between company and personal interests. This process is a prerequisite to develop the identification of individuals with their roles and with their company. The new philosophy of management is focused on creating roles that allow "rewards intrinsic to work," rather than on authority and external control of people intended to "make human nature docile" and to force it to respond promptly to the commands of an authority that centralizes decisions and that, therefore, does not tend to develop and apply the imagination, intelligence, creativity, and skills of organization members in their work.[40]

2.3.4 Presentation of an Effective Management Model That Permits Evaluation of the Originality, Relevance, and Utility of Barnard's Model of the Executive Process

We present below how a program to implement an effective management model could be organized.[41]

(a) General requirements:

- the manager replaces threats and fear by friendship, help, and availability;
- the manager replaces inexorable justice and exemplary punishment by understanding and constructive forgiveness;

[39] Among the many authors we cite Hamel (2009), Prahalad (2010), Tannenbaum et al. (1977). In particular, in the last volume cited, on pp. 362–363, we read that: it is the employees of an individual that determine the authority that he can exercise. Formal authority is, in effect, nominal authority. It becomes real only when it is accepted. An individual may possess formal authority, but this possession is meaningless as long as that authority cannot be effectively used. And it can be used in this way only if it is accepted by the employees of that individual. Therefore, to be effective, formal authority must coincide with the authority determined by his acceptance. The latter defines the useful limits of the former.

The above follows the thought of Barnard (1938), pp. 165–171.

[40] See Herzberg (2009).

[41] This program was designed by Zanda (1984, 2010, 2012), Solimene (2012), p. 212 ff.

- the leader (especially if he belongs to the top of the organization) must stimulate innovation, research, and change; he must have a credible *vision* of the evolutionary trajectories of the company and of the strategies and tactics that may be used. The action plans decided should inspire organization members, should be well understood by them and considered a useful tool to satisfy their aspirations. Management must conceive of the company as an open socio-economic system, with adjustment mechanisms that keep the company in a dynamic equilibrium (typical of open systems) in which regulatory processes control the system to achieve specific levels of order and stability and to permit development and differentiation processes also by inserting (or internal creation in an auto-poietic way) new energy (specialist knowledge, innovative ideas, imagination);
- the effective manager must "lead the organization," stimulate the creation of a cultural environment that encourages creativity and experimentation, and develop decision-making, control, and operational processes harmoniously coordinated and oriented towards the general objectives of the company;
- the role of the effective manager is not so much to use authority to make employees docile and force them to respect his orders and directives, his role is rather to create structure and operating conditions that allow employees to meet their needs and to take rational decisions, to achieve satisfactory results. The manager must know his employees deeply[42] and fully understand the interdependence of the various groups of *stakeholders* that formulate "expectations" about company behavior. He must also ensure the survival of the organization and its development over time, operating in respect of the principles of economic-financial equilibrium (variously declined, depending on whether the company is *for-profit* or *non-profit*) and efficiency (high performance and relatively contained expenses).

(b) Characteristics of the effective manager:

- the manager must be competent and act with fairness and transparency. The lack of these requirements develops in the organization a need for self-defense and resistance to change;
- the manager must actually be interested in the welfare of employees, their professional and career development, and the improvement of their economic situation;
- the manager must know how to develop participation in decision-making, self-direction, and self-control.[43] He must stimulate the determination of high performance targets. He must also know how to apply the "principle of supportive relationships," a general guideline that executives should have for their concrete relationships with people. This principle aims to ensure that, in the various relationships, each member of the organization, in the light of their own perception of the situation and its values, judges the experience

[42] Kellerman (2007).

[43] Likert (1967).

suitable to preserve and consolidate their importance and values and to develop appropriate conditions to apply and enhance their intellectual and professional skills in their work.

(c) Assumptions that inspire the conduct of the effective manager.

These postulates constitute, according to the terminology adopted by McGregor, "Theory Y," which expresses a positive attitude towards the personality and capacities of subordinates. Contrary to "Theory X," it assumes that work is as natural as play or rest; that the average individual, if the company situation is adequate, works hard, accepts and assumes responsibility, and is not indifferent to company needs; that work itself can be a motivating factor; that it is not necessary to resort to authority and analytical control of human behavior to induce people to work effectively; that the organization man is capable of self-direction and self-control. "Theory Y" also assumes that ingenuity, imagination, creativity, and professional skills are widespread among people and that these qualities are only partly used in modern organizations.

These assumptions emphasize the "rewards intrinsic to work," employee participation and, of course, the application and enhancement of the capacity of personnel in their work. "Theory Y" demands, unequivocally, that effective management adopts the "integration principle," namely an adaptation-fusion model between company and individual interests.[44] Therefore, the fundamental function of management, as mentioned above, is to create conditions of organizational structure and operational functioning suitable to develop cooperation, so that each member can adequately meet their personal needs in carrying out the tasks required by organizational roles.

(d) The effective manager transparently declares the underlying values of his management philosophy, pursuing them with consistency, and creates a cultural environment that stimulates the various participants in the organization to internalize and pursue the same values.

These values, if inspired by the "common good," represent the "social cohesion" that creates and strengthens the cooperative effort. The close coherence between proclaimed values and behaviors adopted is essential to develop a shared culture in the organization that inspires the various processes of decision, control, and execution, and allows management to proceed in a harmonious way towards the general purposes of company survival and development.

If the assumptions, briefly illustrated in the preceding points are respected, it is very likely that, as a natural consequence, the following effects occur[45]: development of reciprocal trust between management and employees; extensive decentralization of decision-making; considerable space given to group decisions and supervision; limited use of authority; promotion and application of the skills of

[44] At the center of theory Y there is the principle of integration, namely the creation of conditions for which organization members can reach their objectives in the best way, using their efforts for the success of the enterprise. See McGregor (1960), chap 4.

[45] Zanda (2010).

employees in carrying out their assigned roles; determination of high performance targets at the different levels of the organization; effective countering of entropy and organizational disorder; significant increase in productivity, creativity and innovation; relevant increase in employee satisfaction.

However, these effects, in turn, are likely to generate the following consequences: management (and, more generally, the management model adopted) is considered the catalyst that triggers the "fusion process" of company and personal interests. More precisely, managers are perceived as the tools necessary to develop cooperation and to pursue the common good and the development of people. They are therefore regarded as a "tool for growth," and as a source of help and satisfaction of personal needs.

In conclusion, employees tend to share the objectives required by organizational roles and company strategies and policies. They identify with managers who embody a shared value system and consciously accept their influence.[46]

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[46] In this circumstance, there is a situation in which subordinates permit the decisions adopted at higher levels of the organization to function as a guide or better as a premise for their behavior. In this way good coordination of business decisions is realized; in addition, the operation of business sub-systems is continually directed towards the overall objectives of the organization.

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Chapter 3
The Cultural Background and Socio-Economic Context in Which Barnard Developed his Theory of Executive Functions to Create an Efficient and Effective Cooperative System

Abstract In this chapter, we outline the economic, social, and cultural environment in which the conceptions of Barnard matured: the reference is to the 1930s; we analyze the contribution of the management model proposed by the author to make the capitalist system sustainable.

3.1 Barnard: Scholar of Organizational Behavior and Precursor of Management Theory

Chester I. Barnard (1886–1961) was not a professional academic. He worked mainly in the corporate world and, for about 40 years, held the role of top executive with the Bell Telephone Company. He therefore had the possibility to combine scientific speculation with high-level operational testing, dealing with power in organizations, the role of the organizational structure, the development of the cooperative system, the executive functions, and the quality of leadership in the various "cooperative systems": enterprises, political, religious, military, charity institutions, etc.[1]

The economic, sociological end organizational doctrine puts Barnard in the "*behaviorist*" school that developed from the 1920s and which includes among its illustrious representatives O. Sheldon,[2] M. Parker Follett,[3] and E. Mayo.[4]

This school considered the company a complex social system whose conduct could be rationalized through the application of the methods and results of the behavioral sciences. They regarded relations with employees as an opportunity to be

[1] With great modesty, Barnard states that his work represents a "hypothetical scheme which at present explains roughly to me what I have observed in many years of practical work with organizations of various kinds and what I have constructed from the experience of others, supplemented, of course, by a little knowledge of the social sciences. It is not the work of a scientist or a scholar, but rather of an interested student of affairs." Barnard (1938), p. 292.

[2] Sheldon (1923).

[3] Parker Follett, in Metcalf and Urwick (Eds) (1941).

[4] Mayo (1933, 1945, 1947).

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exploited; they focused their analysis mainly on the study of motivation, on the meaning and role of the organization understood as a socio-economic system, on the training and development of human resources, on the communications system and the quality and impact of leadership.

Barnard, given his great experience as an executive in large enterprises, focused his investigations especially on the elements of the formal organization and on the executive functions that aimed to create a "cooperative system" in which effectiveness and efficiency are made compatible. In our opinion, the author would be better placed among those who defined and developed the discipline of management: a systematic process of decision-making, control, organization, coordination, and leadership.

Barnard could, in our view, even be considered, along with H. Fayol[5] and F.P. Drucker,[6] as one of the founders of management theory. In fact, at the time when Barnard wrote his book *The Functions of the Executive* (1938), the discipline of management was not well considered; academics looked down on it; theorists and practitioners interpreted it as mere "management of the existing" as a bureaucratic control technique. More generally, the discipline was perceived as a range of advice, of practical recipes, "checklists" to operate in business, or to direct one's conduct in the company environment. Most probably, Barnard entitled his book *The Functions of the Executive* and not *The Functions of the Manager* due to the lack of credit that management enjoyed at that time.

Only around the middle of the 1950s,[7] management became a coherent and unified discipline that helped understand the operation of organizations and to govern them. The work of Barnard undoubtedly contributed to this result. He considered the problem of managing complex for-profit and non-profit organizations in a systematic and original way. He also outlined methods and principles that permit us to understand how companies actually work as well as serving as a guide for managers who operate in a changing world and therefore need to adapt management rapidly to environmental dynamism.

3.2 Market Imperatives and Enterprise Behavior

The conduct of the enterprise does not depend exclusively on the imperatives and indications of the market. Its behavior and results are determined largely by its organization and the decision-making and regulation processes of executives.

When Barnard was engaged in the preparation of his fundamental book, apart from the works of K.E.M. Weber,[8] H. Fayol, and M. Parker Follett, pragmatic and

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[5] Fayol (1956).

[6] Drucker (1954, 1955, 1964).

[7] This was almost in coincidence with the publications of Drucker (1954, 1955) and Davis (1951).

[8] Weber (1961); this book was published unfinished posthumously in 1922; ID. (1970), it had been written in 1904–1905.

systematic investigations of management functions, the organizational process and conflicts inside companies were not available. Until then, the forces that determine the real behavior of companies and the way in which their management is organized had not been analyzed appropriately. Although the scholars of sociology, social psychology, history, political science, and general economics dealt with these phenomena, it was in a very abstract and non-systematic way. Therefore, we fully share the following statement of Barnard: "Always, it seemed to me, the social scientists – from whatever side they approached – just reached the edge of organization as I experienced it, and retreated. Rarely did they seem to me to sense the processes of coordination and decisions that underlie a large part at least of the phenomena they described. More important, there was lacking much recognition of formal organization as a most important characteristic of social life, and as being the principal structural aspect of society itself."[9]

Economics studies, referring to neo-classical economists,[10] placed at the base of their analysis a type of inert organization (the capitalist enterprise), almost without a soul, which was moving by the momentum of impersonal market mechanisms.[11] Similar to what had happened to the classical economists (for all see A. Smith[12] and J. S. Mill[13]), the neo-classical scholars focused their attention on market organization and abstract competitive automatisms. In the productive scenario that they described, the company appeared as a cell in the larger fabric of the competitive market. The conduct of the individual production units was mainly determined by market imperatives and their main aim seemed to be the realization of a *surplus* to invest. In other words, the space reserved for the structural characteristics and behavior of firms was very limited. Companies were regarded as a passive element that operated on the basis of information and indications provided by the market itself, to which it was essential to comply or risk elimination from the competitive arena. The company was therefore not considered as an organization but as a discrete element of the market. Thus, there was no in-depth examination of the real decision-making processes, the building of organizational structures, the creation of information, and communication systems and ways in which executives actually governed companies.

It is highly probable that this approach of economists appeared very limited to Barnard, abstract, partial, and a long way from reality: it was functional for the cognitive goals of the economic equilibrium theory; but it was not in line with the needs of those who wanted to understand how companies actually worked.[14]

[9] Barnard (1938), pp. XXVIII–XXIX.

[10] On general economic equilibrium, see, for all, Walras (1953) and Pareto (1927). In relation to partial economic equilibrium, see Marshall (1953).

[11] The productive organism which is at the basis of the conceptualizations of the economists of the end of the nineteenth century has no personality: it has no degree of autonomy regarding the environment. What emerges in the studies is not the way that individual productive organisms operate but the impersonal mechanism of the market that moves and rules all. See Zanda (1974), p. 170.

[12] Smith (1975).

[13] Mill (1885).

[14] To be more precise, it should be noted that some economic studies of the 1930s already tended

Probably this fact was a great stimulus for Barnard to start deep research "within the company" and, in particular, to analyze management functions. It was thus possible for him to inaugurate studies on the behavior of formal organizations that would later reach the "point of full maturity," especially in the work of Herbert Simon, *Administrative Behavior*, 1947.[15] Barnard was deeply convinced of the need for this research, also because, in his opinion, the analysis of "management functions" was not "sufficiently developed" and there was a lack of proportion in relation to the various operating sectors in which it was carried out. On this point he writes, "The executive arts are highly developed in the fields called technological; they are well developed in the technical commercial fields; they are least developed in the techniques of human interactions and organization."[16]

Other stimuli that most probably influenced Barnard's thought derived from certain phenomena that characterized his environment:

(a) the progressive decline of "utilitarian individualism" in favor of a "moral foundation of society";
(b) the advent of "managerial capitalism";
(c) the economic results achieved by the capitalist system.

3.3 The Philosophy of Individualism Versus the Philosophy of Social Ethics

In the first decades of the twentieth century, the utilitarian philosophy of individualism tends to lose vitality in society and enterprises. The philosophy of individualism retreats as the philosophy of social ethics that considers enterprises and society as cooperative systems advances. There is, in fact, the decline of "social Darwinism"

to focus their attention on the adaptation policies of companies and their capacity to influence the market. It is recognized that, alongside the "invisible hand" behind competitive mechanisms, the "visible hand" of the entrepreneur operates significantly and with his decisions impresses the conduct of the business system:

- Sraffa (1926) directs penetrating criticism at the theory of economic equilibrium;
- Robinson (1933) highlights in detail the imperfections of the market;
- Chamberlin (1933) outlines the strategies of product differentiation, which create situations of monopolistic advantage, given the character of "uniqueness" of products for consumers.

Even these studies, although of great scientific importance, did not focus on business organizations, their decision-making processes, controls, and activity of management. They therefore could not satisfy the knowledge needs of Barnard; but certainly, they had the effect of stimulating him to express his view of the conduct of companies born from many years of experience.

[15] See Ferrarotti, Introduction to the book by Barnard (1970), p. XII.

[16] Barnard (1938), p. 292. The author (1946) writes that organizations have well learned how to utilize physical sciences and technology; now they have the problem regarding how to utilize the social sciences to make our human organization truly effective. This affirmation reveals Barnard's capacity for prediction. In fact, in the 1960s, McGregor (1966), p. 3, emphasized the relevance of the problem. In our opinion, it is still a problem of major relevance today.

based on Protestant ethics,[17] on individual self-interest, on freedom, and on the pre-eminence of the individual over the group. The idea of inevitable conflict between individual and organization, that maintains that society and companies are basically areas of competition, also declines. The philosophy of individualism loses ground to the philosophy of *ethical society* understood as a cooperative organization cemented by a system of moral principles.

The "behaviorist" school contributed greatly to replacing individualistic ethics by social ethics, to affirming the superiority of the organization to the individual, emphasizing that creativity and social and economic progress are more linked to the group than to individuals, and that conflict in society and in organizations is largely avoidable through the adoption of appropriate rules of ethical behavior.

These new ideas, most probably, stimulated Barnard to develop a theory on the creation of a cooperative system within organizations, to balance general interests with individual ones. According to Barnard, compatibility between the common good (general good) and the immediate interests of individuals should be sought and regulated through the widespread adoption of moral principles, which are essential for cooperation. More precisely, "The ethical ideal upon which cooperation depends requires the general diffusion of a willingness to subordinate immediate personal interest for both ultimate personal interest and the general good, together with a capacity of individual responsibility. The sense of what will be for the ultimate personal interest and of what will be for the general good both must come from outside the individual. They are social, ethical and religious values. For their general diffusion they depend upon both intelligence and inspiration."[18]

3.4 The *Managerial Revolution*, the Affirmation of Managerial Capitalism and Its Influence on Barnard's Thought

Regarding point (b), namely the affirmation of managerial capitalism, it is important to understand the context.

In the first decades of the twentieth century, scientific and technological progress had increased at higher rates than in the past. Mechanization and automation had developed. Capital investment had become increasingly important. In Western countries, the majority of the population was freed from basic needs and therefore specific and aggregate demand became quite changeable and unpredictable. As a result, given the strong use of fixed capital, and the lengthening of the time related

[17] According to K.E.M. Weber the Protestant work ethic, especially Calvinist, has greatly stimulated the development of the spirit of capitalism. Salvation is established by God, and man is an instrument of God: if he works hard during his existence and realizes considerable success, he can be considered to achieve salvation. Success in work was the signal of being acceptable to God. See Weber (1970).

[18] Barnard (1938), p. 293.

to the adoption of increasingly sophisticated technologies, business risks were greatly increased. To avoid the failure of companies, the management of productive units were required to become increasingly rational, specialized and professional, and responded to the principles of economic and financial equilibrium and efficiency. For these reasons, it became necessary to introduce into companies specialized knowledge of technological, financial, accounting, legal, and commercial matters; but, above all, it was essential to coordinate such knowledge to integrate and harmonize the various specialist contributions. All of this required organization[19] and professional management.

Acting systemically, the phenomena outlined above helped to create the following important consequences: the establishment of the institution of the limited company and the appearance of large corporations; the "atomization" of equity ownership and, in the most industrialized countries and in large enterprises, the advent of the *managerial revolution*, namely the dissociation of share ownership from the effective power of management of the corporation.[20]

In companies in which there was the separation of ownership and control (*mature corporation*), management was exercised largely by professional managers not linked to the company by capital. They operated as "agents"[21] of shareholders and, in fact, mediated and harmonized the interests of the various *stakeholders* connected with the enterprise. The shareholders found themselves in the position of *rentiers* and generally, possessing neither specialized knowledge, nor adequate information on strategies and company activities, they formulated "expectations" for the top managers in terms of the normal dividend to receive and the level of the *valuation ratio* (ratio between the share price and the book value of the shares).[22]

With the managerial revolution, the strategic productive factor within enterprises had become the set of professional knowledge and, specifically, the capacity of managers to guide, organize, and regulate the business system. The behavior of large corporations appeared to be the result of the decisions of a number of specialized and properly coordinated people placed systematically in the organizational structure. The rational conduct of organizations (and this is a fundamental concept that probably influenced Barnard) depended on and was closely connected with the creation of a "pluralistic, organically integrated decision-making structure," which would allow companies to have great sensitivity to technological progress and environmental evolution that would allow them to act quickly, flexibly, and rationally. The "technostructure"[23] was the heart of the decisions, control and information.

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[19] Galbraith (1967), chap. II, writes that the inevitable counterpart of specialization is organization. It is this that is able to lead the activity of specialists to a coherent result. If there are many specialists, this coordination will become a function of fundamental importance. The task of organizing the specialists will effectively prove to be so complex as to require specialists in organization.

[20] On this subject see, in particular, the following works: Berle and Means (1932), Burnham (1941), Galbraith (1951), Marris (1964), and Chandler (1977).

[21] On the theory of agency, see: Jensen and Meckling (1976).

[22] See Zanda (1974), pp. 408–424; ID., (2012), pp. 89–97.

[23] The term "technostructure" is due to Galbraith (1967), chap. VI.

However, this group of specialists was coordinated and directed by the strategic decisions of top management. This was the central unit of management and control: taking strategic decisions, controlling and coordinating the operation of the business system by establishing a hierarchy of objectives, decisions, organs, and authority.[24] The above-mentioned hierarchy appeared necessary to ensure organizational behavior oriented towards the mission and the overall objectives of the enterprise.[25]

Barnard was undoubtedly attracted by the professionalization of the managerial function[26] and, above all, by the effects of the pluralistic decision-making structures. Because they involved the participation of many specialists, they necessarily required an organizational structure that would introduce a hierarchy of objectives, decisions and control, and the adoption of effective leadership to coordinate the specialists and build a cooperative system.[27] Its fundamental objective was to make possible the development of a cooperative group and, consequently, to realize the harmonious operation of the various business units, by achieving a dynamic balance between the contributions made by organization members and the incentives the company provided for them.[28]

With the affirmation of the *managerial revolution*, a new figure comes to corporate and social prominence and soon becomes protagonist: the non-owner manager. This appearance supersedes the dichotomous owners–workers pattern that had characterized the world of work and the system of power in enterprises and in society for centuries. The new paradigm owners/managers/workers saw managers in a position of independence and power (also because executives possessed the skills to manage and govern corporations). Top managers were autonomous; they had objectives that

[24] See Zanda (1974), p. 295 ff.

[25] Cfr. Simon (1958) second edition, p. 45 ff.

On the subject of the hierarchy of decisions, the author states that the concept of "finalism" inevitably involves the notion of "hierarchy" of decisions; each step of this hierarchy representing a means for the realization of the objectives of the step immediately above. The behavior is finalistic only insofar as it is directed by general objectives; it is rational to the extent that it provides for the choice of alternatives likely to achieve previously determined objectives.

[26] This phenomenon, in our view, has been the overwhelming fire that has consumed, in the course of time, the old economic system based on the entrepreneur-owner, who generally worked alone (individual and not group decisions) and made decisions based mainly on intuition, courage, and foresight that often, overvaluing himself, he considered almost divinatory. On this point, see Zanda S. (2009), par. 2.4.

[27] Barnard (1970), p. 346 states that an obvious feature of a leader is to know and say what to do, what not to do, where to go, and when to stop, referring to general goal or objective of the company in which he is engaged. This statement seems to exhaust the ideas of many individuals about the reasons for being a leader. However, if they can observe his actions closely, it is often disconcerting to note that many things that a leader tells others to do were suggested by the same people he leads. Unless he is very dynamic—too dynamic, full of his own ideas—or pompous or Napoleonic, this sometimes gives the impression that he is a rather stupid individual, a simple referee, a pure channel of communication, and a thief of ideas. To some extent, this is true. He must be stupid enough to listen a lot, he must certainly arbitrate to maintain order, and he must sometimes be a pure center of communication. If he used only his own ideas, he would be something like a one-man band, rather than a good orchestra conductor, who is a remarkable kind of leader.

[28] Barnard (1938), pp. 44, 139 and 296.

did not necessarily have to be aligned with those of the owners. They mediated between owners and workers and were therefore responsible for satisfying the "expectations" of the various groups of *stakeholders* interested in company results. Therefore, they had to work to solve the problem of compatibility/integration between different objectives.

Within a philosophy that sought to realize a cooperative and non-utilitarian foundation of society there was the need to create a system of principles that would inspire and justify the conduct of executives and therefore there was much analysis of the "utility function" of non-owner managers.[29] It was believed that these executives pursued (relative to enterprises) the objectives of growth and profitability, favoring the first objective at the expense of the second.[30] Sometimes the social orientation of managers' action was emphasized (compared to what happened in the traditional owner-managed capitalist enterprise). This involved their willingness to assume social responsibility objectives towards employees, customers, suppliers, the natural environment, and local communities, although this assumption was generally regarded not so much as an ethical imperative, but as a company policy aimed at supporting the objectives of growth and profit.

In the light of his operational experience in large corporations, Barnard realized that creating cooperative systems could overcome the physical, cognitive, and rational limitations of individuals, and develop growing prosperity for all. Therefore, he considered that companies are not places where you struggle hard for survival, pushed by selfish individual motives, but environments in which managers are able to create cooperative groups. In essence, Barnard outlines a "utility function" in which ethical principles and the associated social responsibility of managers play a fundamental role and are the elements that hold the organization together, keeping conflict at tolerable and manageable levels.

Because in "mature enterprises" executives exercised broad and autonomous powers and were able to greatly influence the various *stakeholders* by their decisions, in Barnard's opinion, they could not fail to assume the corresponding responsibilities. Thus, their behavior (decisions) could only be inspired by ethical principles, which subordinated the satisfaction of their selfish motives to the common good and respect for the people who became part of the cooperative system. In our opinion, the author outlined theoretical and practical perspectives on this subject that enlightened later scholars who studied the theory of company objectives, the problem of coordination of *stakeholder* expectations, the importance of social responsibility objectives and, more generally, the functions exercised by managers in order to develop the cooperation.

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[29] By "utility function" is meant the "system of objectives" that must be assigned to the company in order to gratify the "motivational system" of managers. The "motivational system" therefore regards the individual-manager, while the utility function concerns all the objectives that he effectively attributes to the company. On this point, see, Salvati (1967), p. 138 ff.

[30] This is the view of many of Barnard's contemporary authors and later ones too, including: Baumol (1959), p. 45 ff.; Berle and Means (1932), pp. 3 ff.; Marris (1964); Monsen et al. (1964), pp. 546 ff.

3.5 The Operation and Results of the Capitalist System: Intellectual Stimulus for the Development of Management Models in a Context of Socio-Economic Dynamism

With regard to the third point mentioned earlier, namely the influence on Barnard's thought of the results achieved by the capitalist system, the following brief points should be made. Barnard, as mentioned previously, was a top manager, a member of the social class that was benefiting from the "power shift" (in business and society) from the owners of capital to professional managers. His observations were undoubtedly permeated by solid realism. His prospective vision was influenced by the conviction that the economic reality was creating the foundations of the "American Dream" (to happen later in the 1950s), in the context of a capitalist system that, although characterized by economic fluctuations,[31] manifested growing prosperity.

At the time he wrote, the developed West had already passed from "competitive capitalism" (characterized by small private companies, in which innovations were introduced by the individual entrepreneur) to "trustified capitalism" (characterized by the advent of large corporations that promoted the innovative process by organizing research and development systematically within companies). In the two phases, the capitalist system had produced remarkable economic progress. This aroused the real hope of poverty reduction and the mitigation of social and company conflicts: capitalism, in essence, cured its own ills—as Shonfield subsequently claimed[32]—through economic growth.

Regarding the United States, according to Schumpeter,[33] based on the Day-Persons index of *total production*, it could be noted that, in the period 1870—1930, the average annual rate of increase was 3.7% (4.3% in manufacturing); while the rate of growth of the value of "production available for consumption" was estimated at 2% per year, at compound interest. According to Schumpeter, if available production had increased, in the next fifty years (1928–1978), at the same annual rate of 2%, it would have reached a value of about 2.7 times that of 1928 at the end of the period. [34] By performing the calculation in terms of the *average per capita real income*, in the fifty-year period, it would have increased to about double the 1928

[31] The subject of economic cycles was analyzed scientifically by Schumpeter, *The Theory of Economic Development*, 1934 (the book had been published for the first time in 1912). This subject was subsequently deepened by the author in the following works: *Business Cycles: a Theoretical, Historical and Statistical Analysis of the Capitalist Process*, 1939; *Capitalism, Socialism and Democracy*, 1942.

[32] Shonfield (1967).

[33] Schumpeter (2010), p. 3. The original title of the work is *Can Capitalism Survive*? *Creative Destruction and the Future of the Global Economy*, 1942. Note that the paper was extracted from the work of 1942 by the author, *Capitalism, Socialism and Democracy*.

[34] Ibidem, p. 5.

value (from $650 to $1300).[35] In other words, the average real income per capita would have grown at a compound interest rate of 1375%.[36]

Barnard could not have known the work of Schumpeter, "*Capitalism, Socialism and Democracy,*" from which the data above was taken, because it was published in 1942. However, there is no doubt that a scholar and high-ranking member of the circle of economic power like him could not fail to know the average progress achieved over time by the capitalist system, also because there was much statistical evidence and research on the subject. Furthermore, in our opinion, Barnard's trust in the economic progress generated by the capitalist system was not severely affected by the depression that occurred between the last quarter of 1929 and the third quarter of 1932, and that produced negative effects until 1939.

That crisis, as Schumpeter later wrote, did not constitute a valid reason to refuse to recognize the economic progress that, *on average*, the propulsive mechanism of capitalist production had realized over the years.[37] They were also then aware that the capitalist process mechanism generated economic activity characterized by "long waves" (Kondratieff waves),[38] each of which almost represented an "industrial revolution" and produced periods of expansion followed by moments of depression in a span of 50–60 years.[39] On this point, Schumpeter stated: We can observe statistically and historically… the beginning of one of these long waves towards the end of the decade 1780–1790, the high point around 1800, then decline… until 1840–

[35] Ibidem, p. 6.

[36] Ibidem, p. 6 in note. The author also states that in England, during the century that preceded the First World War, the average real income per capita increased by about this rate. This figure, in the opinion of the author, is a coincidence to be taken with due caution, but helps to show that the calculation of the 1375% rate is not so absurd.

[37] Schumpeter (2010), p. 4, about the economic cycle of the decade 1929–1939, writes that depressions of the same severity have repeatedly occurred—roughly once every 55 years—and the effects of one—that from 1873 to 1877—were taken into account in the 2% average. The recovery, lower than normal, in the period 1935–1937 and the subsequent slump, are easily explained by the difficulties inherent in adapting to a new fiscal policy, a new labor law and a general change of position of government towards private enterprise.

[38] Nikolai D. Kondratieff, Russian economist (1892–1938), was one of the first scholars to analyze the phenomenon of long economic cycles. He was a supporter of the Russian New Economic Policy (NEP) and the head of research on economic trends. He was arrested in 1930 on invented charges of belonging to the Labor Party of the farmworkers; he was imprisoned and was executed in 1938. He was rehabilitated in 1987 and a foundation was named after him. In his main work in 1925, he argued that capitalist society was evolving according to a system of cycles of about 50–60 years; each cycle was characterized by three phases: expansion, stagnation, and recession. In his view, a new cycle was born on the ashes of the previous cycle and the process was repeated continuously. For further information, see Kondratieff (1935), Grinin et al. (2012), and Kondratieff (1984).

[39] It should be noted that according to scholars of cycles, and, in particular, according to Schumpeter, the duration of a cycle is connected to the nature and importance of innovations introduced by companies. Therefore, in addition to oscillations with a long period (long waves of Kontratieff of 50–60 years), Schumpeter notes that on an empirical basis there are two other types of cycle:

(a) Juglar cycle, lasting 9–10 years, from the name of the French statistician (1819–1905) Juglar (1862);
(b) Kitchin cycle, lasting about 3 years, from the name of Kitchin (1923).

1850. This was the first industrial revolution… however, immediately followed by another long wave that starting from 1840–1850, culminated just before 1857 and flowed again in 1897,[40] to be followed, in turn, by the long wave that reached its apex around 1911 and that is now diminishing.[41,42]

3.6 Barnard's Contribution to the Sustainability of the Capitalist System

In conclusion, Barnard, in our opinion, knew very well how the capitalist system worked and the problems posed by recurring crises triggered by entrepreneurial innovations. The latter provoked "*creative destruction*" of the productive apparatus, overcame social resistance to change with great difficulty and required, once introduced, a difficult readjustment of the socio-economic system, not free from tensions and conflicts. But these difficulties of social resistance to reorganization and adaptation to the new (present in the phases of expansion, stagnation, and recession) were probably strong "intellectual stimulation" for Barnard (top manager, sociologist, and economist). He strove to find new leadership systems and, in particular, to assign executives the difficult task of creating cooperative groups in the company that operated according to different schemes and principles from the traditional ones, in order to adequately face the increasingly complex dynamism of the socio-economic context.[43] In this sense, in our view, the capitalist economic progress characterized by recurrent oscillations influenced the thought of Barnard and his real managerial activity. He ultimately worked (in thought and deed) for the survival of the capitalist mechanism and especially to avoid "deterioration" in its quality (in terms of increased income and wealth distribution), not believing that capitalism was destined to a final crisis and disappear as was believed by a large number of socio-economic thinkers.[44]

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[40] This period of time constitutes the second industrial revolution connected with the application of electricity for civil and industrial use. These applications generated epochal changes in productive performance and in the organization of Western companies.

[41] The reference is to 1942, the year in which the author wrote.

[42] Schumpeter (2010), pp. 10–11.

[43] The work of Barnard can be regarded as an effort to find principles of cooperative action in companies of all kinds, action aimed at the survival and development of productive organizations. See in particular: Barnard (1938), chaps IV, V, XI, XV, XVII.

[44] We refer, above all, to the thought of Karl Marx and his followers; but also to that of Schumpeter, who, like the Marxists, held that capitalism was destined for a final crisis. However, this was not for the reasons adopted by the Marxists who focused on problems inside the capital accumulation mechanism. Schumpeter believed, however, that the crisis would occur with the advent of new forms of organization of production (*trustified* capitalism and big business). In other words, the crisis would manifest due to the disappearance (or the gradual loss of importance) of the traditional entrepreneur, conceived as a single private person producing innovations that generate profit and the accumulation of capital. According to Schumpeter, the "retreat" of the individual entrepreneur, expression of intuition and courage, would take place, with the passage of time, with the gradual emergence of big business and the adoption of new forms of organization, research and management that would replace the individual by the group, reduce innovation to a *routine* process and

In this attempt to reinvigorate the mechanism of the capitalist system, his work appears complementary to that of J.M. Keynes,[45] who suggested and stimulated forms of systematic intervention of economic policy aimed at increasing public investment compared to overall investment (maintaining effective demand at a level that guarantees high employment) and developing processes of redistribution of income between consumption and savings in favor of consumption.[46]

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push the bourgeois class that had had the task of expressing the individual innovator entrepreneur into the shadows. In Schumpeter's opinion, in addition, the risks arising both from the massive capital investments and the dynamism of the environment would make business planning indispensable. Specifically, they would require the adoption of strategies to ensure that everything forecast and planned would actually have to occur in the end. For these reasons, the function of business planning would become increasingly important at the expense of the traditional capital accumulation function, typical of the traditional entrepreneur.

[45] Keynes (1936).

[46] Keynes' approach is to implement a coordinated system of economic policy measures suitable to keep the capitalist system alive while modifying some specific features.

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Chapter 4
The Executive Process and Its Organic Functions. The Fundamental Role of Leadership

Abstract In this chapter, the analysis interprets the thought of Barnard on the management process. The author's approach is systemic: he uses the concept of system as the basis of development for his management theory. Apart from some differences in terminology, the management functions adopted by Barnard are very similar in substance to those recurrent in the modern theory of management; on this issue, the author seems a precursor of subsequent theoretical developments. What is really original in his theoretical construction is the relationship between the set of management functions (management process) and the function of leadership.

4.1 Barnard, Pioneer in the Application of General Systems Theory to Organizations

The company is a system constituted by the activities of various people. These activities create a system when they are coordinated and directed towards a general unifying purpose.[1]

Barnard calls this system, specifically, an "organization" (organizational system) to emphasize specialization, coordination, and finalization of people's activities.

The concept of system is the key point in the development of Barnard's management theory. This concept suggests that the general goals and specific objectives of the system, the organizational structure, and the behavior of the system and subsystems in which it can be divided must be analyzed according to "Systems Theory" in order to be understood well. In other words, these elements should be investigated "holistically" by considering the elements that make up the system and the relationships between them as "a whole."[2]

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[1] Barnard (1938), p. 77.

[2] Ibidem, pp. 77 and 78. Barnard adds, "If organizations are systems, it follows that the general characteristics of systems are also those of organizations. For our purposes, we may say that a system is something which must be treated as a whole because each part is related to every other part included in it in a significant way. What is significant is determined by order as defined for a particular purpose, or from a particular point of view, such that if there is a change in the system, it then either becomes a new system or a new state of the same system."

S. Zanda, *Building Efficient Management and Leadership Practices*, Innovation, Technology, and Knowledge Management, DOI 10.1007/978-3-319-60068-0_4

The holistic paradigm is a methodology for the study of complex systems (which include organizations such as companies), which is in conflict with the scientific tradition based on analytical procedures.[3] These procedures were proposed to analyze the structure and behavior of a system, first, by subdividing it into simple elementary components to be considered individually and subsequently putting together the specific analysis, in order to finally detect the general concepts. The traditional scientific process was trying to overcome the complexity of systems by means of an isolationist type of analytical procedure. The sole purpose of science appeared to be analytical and to consist in the subdivision of reality into ever-smaller units and in the isolation of causal chains.[4] Scientific analysis was focused on the constituent elements of the system; conversely, the investigation was almost never extended to the dynamic relationships between system elements.

This approach did not satisfy the scientists of the first half of the twentieth century, mainly because it did not allow them to understand the reality under investigation in its totality and unity. It was rightly held that understanding the "being" in its unity depended on the analysis of the relationships between the elements and between the single elements and the whole.

Ultimately, the need to know reality in its entirety and complexity[5] resulted in new approaches to study and research and the appearance, in all sectors of science, of notions like wholeness, holistic, organicism, Gestalt, etc., which all mean that, ultimately, we must think in terms of systems of elements in interaction.[6] In particular, the concepts of teleology and systems organization emerged, which are highly relevant for studies concerning the aims, structure, and behavior of organizations.[7]

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[3] According to von Bertalanffy (1971), pp. 45 and 46, an *analytic procedure* means that a certain entity, under investigation, should be divided into parts and that it can therefore be constituted by these, or reconstituted starting from them, it being understood that these procedures are considered both in a material and conceptual sense. And this, therefore, is the fundamental principle of classical science, and you can delimit it in different ways: resolution into isolatable causes, search for atomic units in the various scientific fields, etc. Scientific progress has shown that these principles of classical science—formulated for the first time by Galileo and Descartes—obtain great success in a vast realm of phenomena.

[4] von Bertalanffy (1971), p. 83.

[5] On the application of the theory of complexity to organizations, see: Waldrop (1933), Lewin (1999), Dagnino (2000), and Caldart and Ricart (2004).

[6] von Bertalanffy (1971), pp. 83 and 84.

[7] von Bertalanffy (1971), p. 48 states that notions such as that of teleology and trends appeared to be outside the scope of science, to form the playing field suitable for mysterious supernatural or anthropomorphic agents; or, such notions were going to form some pseudo-problem intrinsically extraneous to science, a mere and erroneous projection of the mind of the observer within a nature governed by laws without purpose. Nevertheless, these aspects exist and you can hardly think of a living organism—not to mention the behavior of human society—regardless of how much, in various ways and forms, and rather lacking in rigor, is indicated by terms such as adaptation, purposes, searching for objectives, and the like. It is a characteristic fact of the contemporary conception to seriously consider these aspects as legitimately scientific problems; not only that, but we can also indicate models that simulate such behavior.

Certainly, it can be affirmed that the holistic scientific paradigm starts from the conviction that there can be a difference between the study of the system considered as a unit and as the sum of isolated parts. In fact, the subdivision into simple modules does not completely permit understanding of the relationship between the elements and their effects on the operation of the overall system. The systemic approach is also multidisciplinary; this leads to the development of synergies in the pursuit of knowledge, the adoption of new and original conceptual schemes, and the transfer of research results from one field of study to another.[8]

Barnard considers that companies are complex systems to be analyzed in a unified way, also in their relations with external systems of a higher order, and which must be regulated and coordinated in order to reach their general purpose. He believes that the birth, evolution, and preservation of business systems depend largely on the quality of the leadership function that seeks a dynamic equilibrium between the contributions received and incentives given to organization participants. For all these reasons, in our view, Barnard can be regarded as one of the precursors of the *application* of the "general theory of systems" to management processes in complex companies.

The fundamental reference points in the research and studies on general systems theory include von Bertalanffy,[9] Boulding,[10] Johnson, Kast, Rosenzweig,[11] Ackoff,[12] Emery,[13] and Scott.[14]

Barnard wrote some time before these authors, but his philosophical approach to the study of complex systems is certainly in line with the general theory of systems. Here is an example. According to Johnson, Kast, and Rosenzwei*g,* the concept of system is primarily a way of thinking about company management. It provides a framework that permits interpretation of internal and external environmental factors as an integrated whole. It permits identification of the functional aspect of subsystems and that of the complex super-systems that form the operational framework of the businessman. The concept of system stimulates a way of thinking that, on the one hand, allows simplification and, on the other, helps to recognize the nature of complex problems and to operate in the perceived environment.[15] It could be affirmed that these concepts reflect the thought of Barnard explained in chapters VI, VII, IX, and XV of his much-cited work, which we have reported in brief, at the beginning of this section.

The modernity of Barnard's thought on this subject can be clearly seen in the light of the following considerations.

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8 For a fine summary of the elements that form the basis of systemic thought, see Carayannis and Campbell (2006), p. 4 ff.

9 von Bertalanffy (1950, 1968), von Bertalanffy and Rapoport (1959).

10 Boulding (1956a, General Systems); ID. (1956b, The image).

11 Johnson et al. (1970).

12 Ackoff (1960).

13 Emery (2007).

14 Scott (1963). On this subject, these works are particularly interesting: Köhler (1929, 1938).

15 Johnson et al. (1970), p. 4.

The author believes that organizations of a certain size are very complex socio-economic systems that, although oriented towards a general unifying purpose, tend towards disorder and disintegration and we would say, in systems theory terminology, towards positive entropy.

This happens, in the first place, because companies are “open systems” affected by the type and intensity of relationships established with the external environment. In other words, the company is not a closed deterministic system that operates automatically and predictably. It is not a machine that, once prepared and started, proceeds without deviation to the pre-established objectives.

In second place, the operation of the organization is not perfectly predictable because the internal environment is dynamic and full of potential entropy. Each organization participant has different objectives from the organization and other members of the company. Each participant interprets external environment changes and his organizational role in a personal way: this causes lack of coordination. The average organization man also tends to filter and sometimes distort information. The average participant often has “exclusive” specialist skills, therefore his conduct is not so easy to control by managers.

From the above, it follows that the organizational system must be regulated to be kept oriented to the general purposes and to counter disorder and the tendency to disintegration. This is made possible by an effective management process.

4.2 Towards the Construction of a General Theory of for-Profit and non-Profit Organizations

The concepts expressed by Barnard on the creation of organizational and communication structures, on the determination of general and specific objectives, and on the manager’s function, refer to companies of every kind. These include production units for the market, but also other organizations such as churches, scientific, political, patriotic, sporting and cultural associations, and charities and assistance institutions. They are all organizations oriented to profit or to other institutional purposes related to solidarity, gratuitousness, and mutuality.

In his management theory—based on the concept of the system—you can see the foundations on which to construct a “general theory of the firm,”[16] in our view, a theory that still has not been fully developed in the economic culture of the most advanced countries. It is a theory that systematically explains the purposes, the decisional and organizational structure, and the behavior of companies conceived in a broad sense. It is a theory capable of creating a unifying conceptual framework, which simultaneously takes into account the various (existing and/or possible) company models suitable to satisfy human needs and which includes the more important

[16] See Barnard (1938), pp. 92–95 and 154–160.

"theory of enterprise behavior" regarding that special kind of profit-oriented productive organization as a special case.

We will now analyze, in more detail, the functions of the executive process, as understood by C.I. Barnard.

4.3 The Organic Functions of the Executive Process According to Barnard

Barnard divides the executive process into the following functions[17]:

(a) creation of a communications system, which is a system of control lines and information. This involves the "construction" of an organizational structure (i.e., the specification of a system of specialized roles and authoritarian and non-authoritarian lines of influence that link the various roles) and the establishment of an information system that feeds the decision-making, execution, and control processes;
(b) acquisition and maintenance of services supplied by organization members (employees and *stakeholders*), creating a continuous equilibrium between material and immaterial incentives provided by the company, on the one hand, and contributions received by organization members, on the other. These activities are harmonized by leadership based on the sense of responsibility of the executive who develops the confidence of participants;
(c) the formulation and definition of the general purpose and objectives of the company (and the control of their realization); Barnard seems to assign less importance to the decision-making function. He puts it in third place, after the function that creates organizational structures and communication and the activation of the "cooperative process" that aims to induce people to participate and work actively for the organization.[18]

Barnard states that an executive must decide on the general purpose and specific objectives to which he is committed. It is obvious that he must take decisions to determine the conduct of the company system and its sub-systems; however, according to the author, if you observe a manager at work, you can see that many things he tells others to do are suggested by the same people he manages.[19] In essence, in his opinion, the manager often acts as a referee to coordinate the organizational system; he distinguishes the important things from the less important, in relation to the concrete situation he faces; he examines business issues comprehensively; he maintains and consolidates cohesion and works continually with balance, maintaining a

[17] See Barnard (1938), pp. 170–171, 215–234.

[18] The manager, according to the author, is more a person who listens, who acts as an arbiter, mediating, coordinating, and communicating to develop cooperation, rather than an individual who decides and commands. See: Barnard (1970), p. 346.

[19] Barnard (1970), p. 346.

discreet profile and avoiding manifestations of authority. Barnard affirms that if the manager used only his own ideas and skills, he would be something like a one-man band, rather than a good orchestra conductor, who is a remarkable kind of leader.[20]

The management functions are intended to create and maintain a system of cooperative efforts to realize the general purposes of the organization. They are similar to those of the nervous system, brain included, compared to the rest of the body. Such a system exists to maintain the body system, directing the action necessary to adapt to the environment more effectively.[21]

The management process, in particular, consists of the "specialized work of maintaining the organization in operation."[22] The process involves the determination of objectives, the coordination of activities of organization participants, and the continuous regulation of the cooperative system to the pre-established goals. In Barnard's opinion, coordination is the essence of management, which is not an "organic function" of the management process, but the objective and result of this process.

4.4 Barnard's Theory of the Executive Process

Returning to the subject of the executive process, adopting the terminology of management authors, according to Barnard, it can be maintained that the "organic functions of the executive process" are the following:

– planning function (which is expressed in a system of strategic, tactical, and operational decisions to determine the general purposes of the company, the objectives of sub-systems and the strategies to achieve them);
– organization function (to create the organizational structure; to define organizational roles and the relationships between them; to create the information system[23], and to define procedures and provisions that regulate the operation of the organization);

[20] Ibidem, p. 346.

[21] See Barnard (1938), pp. 216–217.

[22] Barnard (1938), p. 215.

[23] The function that creates the organizational structure and the connected system of communication is thus summarized by Barnard: "To summarize: the first executive function is to develop and maintain a system of communication. This involves jointly a scheme of organization and an executive personnel. The processes by which the latter is accomplished include chiefly the selection of men and the offering of incentives; techniques of control permitting effectiveness in promoting, demoting, and dismissing men; and finally the securing of an informal organization in which the essential property is compatibility of personnel. The chief functions of this informal organization are expansion of the means of communication with reduction in the necessity for formal decisions, the minimizing of undesirable influences, and the promotion of desirable influences concordant with the scheme of formal responsibilities". See: Barnard (1938), pp. 226 and 227.

- control function (which adjusts the company system, developing corrective action through feedback, which may relate to programs, the organization and executive activities);
- function to find participants and bring them into a cooperative relationship and to introduce a system of incentives and persuasion to create and maintain the cooperative system, neutralizing, as far as possible, conflict and disorder[24];
- the leadership function, which—in our opinion—is regarded by Barnard as an independent function that shapes the other management functions, according to the management styles that characterize executives. These styles depend on their "moral codes" and "personal qualities," and their vision of the mission of the enterprise. Leadership allows an organization, in essence, to become an *institution* incorporating values, goals, and programs and to create an ideal heritage that directs the institution.[25] Therefore, leadership is considered by Barnard as a *management function of a superior order* than the other organic functions mentioned above. It is the heart of the executive process; in particular, it represents the force that can transform the (neutral and anonymous) organization into a social institution characterized by a system of values and programs.

Barnard puts *coordination* together with these organic functions, and seems to interpret it as the essence and objective of the organic functions of management.

The above is our interpretation of what Barnard considers the "executive process."

We have tried not to misinterpret his thought, but to fully respect the substance, re-expressing it and adopting slightly different terminology.

Therefore, for Barnard, the executive process consists of planning, organization, control, and the creation and maintenance of a cooperative system, all under the guidance of leadership based on responsibility.[26] The objective, or rather, the result of this process is coordination[27]; therefore, there is good coordination if the organic functions are carried out effectively and efficiently.

[24] This function promotes the acquisition of services supplied by organization participants. This task, states the author, "divides into two main divisions: I) the bringing of persons into cooperative relationship with the organization; II) the eliciting of the service after such persons have been brought into that relationship". Barnard (1938), p. 227.

[25] This concept was developed in particular by Selznick (1957), who emphasizes that it is the function of leadership that permits a purely technical, neutral, and anonymous organization to be transformed into an institution incorporating in the company social structure, a significant mission, a system of values and programs. Leadership, more precisely, creates an ideal heritage of the institution that favors the development of particular conduct and the establishment of specific ways of thinking and acting.

According to Selznick, leadership is characterized by the following tasks: (a) definition of the organization's mission, (b) institutional incorporation of this, (c) defense of the institutional integrity and protection of the ideal heritage of the institution, (d) resolution of conflicts between organization participants.

[26] Leadership can therefore be regarded as a function, with its own characteristics, which forms the nature and quality of the other management functions.

[27] It can be noted that, to this day, it is open to discussion whether coordination should be considered as an organic function or if, conversely, it should be regarded as the objective, the essence, of the management process. See: Koontz and O'Donnell (1959), p. 50 ff.; Solimene (2012), chap. 8.

4.5 The Modernity of Barnard's Thought

From the above, the modernity of Barnard's thought regarding executive functions and therefore management is evident.

This discipline has been forming since the beginning of the twentieth century, through the aggregation and systematic integration of numerous studies and research conducted by academics and especially by high-level executives who experienced in the field the problems posed by the need to govern companies rationally.

The *conceptual platform* on which the management discipline is based, it has been said, consists mainly of the contributions made by scholars and executives and concerns especially the management process. It has developed gradually over time and in this platform, we can see the following basic streams:

(a) studies and research "on the scientific organization of work," by Taylor and his followers;
(b) theory of "administrative organization of work," whose main exponents are Fayol,[28] Gulick,[29] Graicunas[30], and Urwick[31];
(c) contributions of the *behaviorist* school, including the most illustrious representatives Parker Follett, Barnard, and Mayo;
(d) studies and research focused specifically on the functions and executive process. These last works are the real "hard core" of management; they were started by Fayol[32] and were continued with the contribution of various authors, among

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[28] Fayol (1956), first edition 1916.

Before the works of Fayol, to our knowledge, systematic works on management that provided an organic framework of the management process did not exist. Therefore, the author can be considered the real father of management, as noted by Koontz and O'Donnell (1959), pp. 21 and 22.

As Koontz and O'Donnell reported, the fundamental work of Fayol is from 1916, and was reprinted several times in France. It was translated into English in 1929 and printed by the *International Institute of Management* in Geneva. No English translation was published until 1949 in the United States, even though the thought of Fayol was brought to the attention of scholars in 1923 through the translation of an essay, subsequently included in a "*collection papers*" of Gulick and Urwick. From the above, as Koontz and O'Donnell state, it can easily be understood why the great authors on management such as Sheldon, Mooney, and Barnard clearly show they are not familiar with Fayol's thought in their works.

[29] Gulick (1937).

[30] Graicunas (1937).

[31] Urwick (1937, 1944, 1952).

[32] Fayol considers that the business system is complex and can be governed effectively by following a series of principles that shape enterprise administration theory. His analysis refers to all types of company and not just profit-oriented enterprises. His seminal work of 1916 (*Administration industrielle et générale*) is divided into three parts: the first concerns the qualities that characterize an executive; the second concerns the general principles of administration that should be followed by an effective executive; the third is related to company functions, which are divided into operational and management functions (*fonctions administratives*). The author classifies management functions as follows: planning, organization, command, coordination, and control. This distinction has served as a guide for all management scholars and managers, leaving an indelible mark in management theory. It should be emphasized that the author considers the management function

whom we would like to remember Davis,[33] Terry,[34] Fox,[35] Pfiffner and Sherwood,[36] Longenecker,[37] and Koontz and O'Donnell.[38]

Among the authors who are part of this "hard core" there is considerable consensus on the substance of the management process, despite the variety of classifications and terminology used. It is divided into the following functions: planning (system of decisions), organization, control, and leadership (direction of the human factor). Some authors further subdivide one or more of these functions: for example, Koontz and O'Donnell refer to planning, organizing, staffing, direction, and control; Terry distinguishes between planning, organizing, directing, coordinating, controlling, and leading human efforts. Fayol, like Terry, adds the coordination function. Most, however, point out that coordination is the essence, the final result of the management process; it therefore does not constitute an "organic function," but an objective to which managerial functions would tend. However, despite the variety of interpretations, the substance does not change. There is also general agreement on the "universality" of these functions: i.e., they are typical of the manager (inherent in his activity) and this is regardless of his role, his hierarchical position, operational sector, and the type of company considered.[39]

It can be seen that Barnard's position on the management process is closely aligned with that of the leading theorists in the field. It should also be noted that, except for the works of H. Fayol, the writings of Barnard are the earliest. This demonstrates, once again, his capacity to anticipate the most advanced concepts related to management.

4.6 The Conceptual System of Management: Its Current Configuration

Returning to the conceptual body of management, it should be noted that the various contributions of different scientific fields since the 1950s have converged, by integration, on the *basic platform* mentioned above. These contributions can be briefly summarized as follows[40]:

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the fundamental element for the success of companies, since its purpose is to "rationalize" the system of operational activities.

33 Davis (1951).

34 Terry (1955).

35 Fox (1963).

36 Pfiffner and Sherwood (1960).

37 Longenecker (1964).

38 Koontz and O'Donnell (1959 and 1968).

39 Cfr. Koontz and O'Donnell (1959 and 1968), p. 54.

40 Cfr. Solimene (2011), chap. 3.

(1) studies and research on "organizational behavior," which integrate the theories developed by the *behaviorist* school during the 1920s and 1930s. Analysis focuses mainly on the study of complex organizations, the individual, company culture, authority, power, communication, motivation, and management models to create conditions for the improvement of productivity and employee satisfaction. The various authors include Argyris,[41]Bakke,[42] Barnard,[43] Likert,[44] Maslow,[45] McGregor,[46] and Simon[47];
(2) studies and research on the decision-making process, which analyze the formation of decisions, the rationality of the decision-making process, the psychology of organizational decisions, the function of authority and communication, organizational coordination, the characteristics of strategic, tactical and operational decisions. The many scholars include: Ansoff,[48] Chandler,[49] Cyert and March,[50] Jones,[51] and Simon[52];
(3) studies and research on the philosophy of management, the responsibility of executives, the formation of company objectives, the control of their realization, and the "utility function" that guides the conduct of executives. These investigations systematically integrate the studies and research referred to in points (1) and (2). They are significantly influenced, in turn, by the studies on systems theory and organizational contingency.[53]

Finally it should be noted that the overall conceptual body of management (derived from the integration of the "basic platform" and the areas of study just briefly outlined) has been completed, over time, by incorporating the changes that have occurred in the economic, political, and social contexts and in the conduct of companies (especially large corporations). We allude to phenomena that have appeared since the 1980s, namely: the advent of *managerial-shareholder capitalism*; the "financialization" of the economy and large companies; the overwhelming reaffirmation of the theory of the enterprise based on the maximization of profit and share value, which holds that the only responsible behavior of managers is to satisfy

[41] Argyris (1953, 1957).

[42] Bakke (1953), Bakke and Argyris (1954).

[43] Barnard (1938).

[44] Likert (1961, 1967).

[45] Maslow (1943, 1954).

[46] McGregor (1960, 1966).

[47] Simon (1958).

[48] Ansoff (1965, 1979).

[49] Chandler (1962).

[50] Cyert and March (1963), March and Simon (1958).

[51] Jones (1957).

[52] Simon (1952, 1958, 1960).

[53] Among the various works, we highlight those of Drucker (1954); see in particular *the revised edition* of 2007; Drucker (1955, 1964a, b, 1980, 1985).

their shareholders; the appearance of the *irresponsible company*; the use of the multimedia network; the development of new scientific and technological knowledge that have produced the so-called third industrial revolution.[54]

4.7 Coordination Is Not an Autonomous Management Function

In this section, we will show why coordination is not a management function, but is the essence of managership, namely the objective of the executive process to create and maintain an effective and efficient cooperative system.

The functions of executives increase in complexity as company size increases and as the external environment gradually becomes more unstable, less predictable, and harder to influence. To keep the organization running—states Barnard[55]—requires executive work whose ultimate goal is the coordination of the business system, to make it proceed in a unified manner towards the general purposes. "Without that up-and-down-the-line coordination of purposeful decisions, general decisions and general purposes are mere intellectual processes in an organization vacuum, insulated from realities by layers of misunderstanding."[56]

At the conclusion of the analysis on the executive process—as it is understood by Barnard—we see, in extreme synthesis, how it realizes coordination, avoiding disorder, conflict, and the disintegration of the organizational system. We limit the analysis to *internal* coordination of the company system, disregarding the decisions and acts of management to develop a cooperative system with *external stakeholders*: customers, capital lenders, suppliers, government agencies, local communities, etc. The coordination of these outside groups is nevertheless realized by the management function of incentivization and persuasion to create and maintain a cooperative system. This will be discussed in detail in Chap. 7.

Returning to internal coordination, company management directs and conditions the discretional freedom of the various organizational centers (of decision-making, control, and execution) and aims to adapt their conduct to the requirements/interests of the organization via the following managerial activities:

(a) Definition of organizational roles and lines of authoritarian and non-authoritarian influence that connect them.[57]

By this activity, the organizational structure is created: the tasks to be assigned to individuals and business units are predetermined; the lines of authority, counseling,

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[54] This knowledge is related to the following fields: biotechnologies, information technology, artificial and synthetic materials, microelectronics, robotics, and telecommunication. On this point, see Thurow (2000), Introduction, p. 52 ff.

[55] Barnard (1938), p. 215.

[56] Barnard (1938), p. 233.

[57] See Daft (2010), chap 3.

and assistance are defined. These lines represent the communication system, the power relations in the organization, and the information system that feeds the decision-making, execution, and control processes. The information system is divided according to company processes and therefore develops vertically, horizontally, and transversally through the various units that make up the organizational framework.

It is important to note that the establishment of the organizational structure allows the various participants to concentrate their activities on particular specialized tasks and to form stable expectations about the conduct of the other members in order to avoid conflicts, overlapping of tasks, and power vacuums.

With the building of the organizational structure, it creates what March and Simon[58] define "structural coordination," which establishes, in general and abstract terms, both the behaviors that the organization expects of those to whom roles will be entrusted, and the relationships that are expected between them.

(b) Determination of the objectives that the various business units (departments, divisions, roles, etc.) will have to realize in relation to their functions, and to specific deadlines. To this determination must be added the more or less analytical specification of "managerial strategies and policies" to be adopted to realize these objectives. This is the planning process, which can have strategic, tactical, and operational connotations according to whether it affects the company system as a whole or one or more sub-systems, according to the reference time frame considered, and in relation to the importance of decisions.

The conduct of the role holders can be programmed more or less analytically. At lower levels, people's behavior can be programmed in great detail. In fact, in addition to the objectives to be realized, all actions/decisions to be taken to achieve these objectives can be determined precisely.

The discretion (that is, the freedom of action) left to the owner of a particular organizational center depends on the extent to which the planning process specifies activities (means) and the extent to which the objective of the work is specified (end). The further the program goes in the direction that only the end to be achieved is specified, the greater the discretion left to the person implementing the program in establishing the connections between the means and the end.[59]

In order to control operational processes and decision-making activities, companies adopt policies, procedures, and rules. When dealing with high-level management centers and innovative decisions (based on exclusive specialist skills, on the imagination, and creativity of particular people) it is not possible or convenient, to resort to the use of standard operating procedures. In these cases, it is advisable to make use of policies, and resort to a principle or set of principles (close to the culture of the organization) that track the orientation and the limits, towards which and within which, decisions must be taken. Conversely, when dealing with business

[58] March and Simon (1966), p. 12.

[59] March and Simon (1966), p. 185.

centers of low organizational level in which management and operational processes are repetitive, decisions and actions can be standardized through the adoption of procedures and a system of rules.

(c) Creation of a regulation process for the company system. The system maintains the value of certain variables within predetermined limits, in order to keep it continuously oriented towards the pre-established objectives through corrective measures.

This is the management control process, which starts from the objectives pre-established by planning. It then proceeds to measure the results of company activity, calculating any discrepancies between objectives and results. It analyzes their causes, the significance, and magnitude of the deviations, and then finally starts the feedback process, which attempts to adjust business activity or to reprogram the target to be realized, taking into account the new situation and the indications of calculations of convenience. The more frequent the feedback process occurs, the faster the company adapts to variations that occur in the external environment and internal processes. In well-managed companies, in addition to feedback, a feed-forward process tends to develop, based on the experience derived from the feed-back, on simulation processes, and the verification and review of the *assumptions* on which planning is based. In this way, information is acquired and corrective action initiated *before the action occurs*, in advance of results.[60]

(d) Use of stimulus to achieve an integrated, coordinated, and collaborative organizational system and to enhance its survival and development. This function aims to create and maintain an appropriate balance between the value of contributions made by organization members and the costs associated with incentives provided by the company. It is a very delicate function, fundamental for company success, also because its main objective is to make individual interests compatible with those of the organization. This theme will be analyzed in detail in Chaps. 7–9.
(e) Selection and recruitment of suitable people to fill company roles and their education and training consistent with the technical interests and cultural codes of the organization.

This activity, referred to several times by Barnard, is part of the management function and aims to create a "cooperative" system, to lead people into cooperative relationship and to stimulate them to provide valuable services. The relevance of this activity for the purposes of coordination is not in doubt. If an organization was able to recruit and place in the organizational framework people already technically and psychologically structured in order to respond adequately to the company requirements, or if it was able to train and educate people to operate consistently with the requirements of the organization, the problem of cooperation could, to a

[60] In the feedback mechanism, regulation is triggered, instead, after the action has happened and the results have manifested.

large extent, be solved automatically. It would be a simple problem to find a good balance between company incentives and contributions made by participants. Furthermore, people could be managed without constantly resorting to coercive methods, based on authority. However, in reality, this is neither fully nor easily achievable. Executives can adopt policies that *tend* to generate such effects[61]; but, the problem of leadership and the establishment and maintenance of a cooperative group is always present and occupies executives to a significant extent; the solutions adopted are a valuable indicator of the quality of executives.

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[61] With regard to low organizational roles, companies, as a rule, tend to seek, recruit, and hire personalities structured to respond promptly and diligently to orders and directives; i.e. personalities who have internalized "fixed response behavioral programs." For management positions, conversely, especially working in a complex and dynamic environment, companies tend to put in managerial positions personalities whose conduct is inspired by the "principle of adaptation."

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Chapter 5
The Formulation and Control of the General Purposes of a Company and Its Sub-system Objectives. The Creation of the Organizational Structure and the Information System

Abstract In this chapter, two management functions are analyzed: one that leads to the formulation of general objectives and the system of corporate objectives and one to create the organizational structure and the communications system. The approach followed by the author is "holistic": the corporate system is considered as an integrated whole and both the elements that make up the system and the relationships between them are analyzed simultaneously.

5.1 Introduction

According to Barnard, as outlined above, the fundamental functions of the executive are as follows:

(a) to formulate and define the general purposes and objectives of the organization and control their realization;
(b) to create and maintain a communication system (definition of the organizational structure, including roles and lines of communication and creation of an information system that supports decisions, action, and controls);
(c) to acquire and maintain the services provided by participants (employees and other stakeholders) realizing an equilibrium between the value of the contributions obtained and the costs incurred to develop and maintain the cooperative system. Government of the cooperative system is also inspired by leadership based on a sense of responsibility and on particular private moral codes that guide the conduct of executives.

The classification of the functions listed above does not follow the order established by Barnard, who assigns function (a) third place.

This variation anyway does not affect the substance of the representation of the author's thought.

In this chapter, the focus will be on the first two functions; but the discussion will be integrated with what will be said in Chap. 6.

The third management function (which can be divided into two: (a) acquisition and maintenance of services provided by participants and creation of a cooperative system and (b) leadership) will be considered in Chaps. 7 and 9.

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This chapter will initially deal with the distinction made by Barnard between organizational and individual objectives. Subsequently, the distinction between general organization purposes and objectives of company sub-systems will be considered. We will then examine the role and characteristics of the organizational structure and of the communications system. We will also focus on the process to formulate the general purpose and analyze Barnard's thought on the subject. Finally, we will analyze some developments in business theory due to March, Cyert, and Galbraith, who were probably influenced by Barnard's thought, which will be critically discussed.

5.2 Motives and Objectives of Organization Members

First, in distinguishing between the motives and objectives of organization members, at times Barnard seems to use the two concepts interchangeably; however, it would be opportune to keep them distinct when examining the formulation processes of company objectives.[1]

To clarify the point, motives are the interests, desires, and inner needs of the individual. When they are in tension, they stimulate his behavior to look for and realize specific external objectives suitable to gratify them.[2] Needs should be considered as components of the human personality and are internal to the person. Objectives, conversely, are goals to be achieved. They are external to the individual and present in the environment in which he operates. The motivational system of each individual can be gratified realizing goals set by the company (these are objectives wanted by the organization) and/or pursuing objectives offered by other alternative organizations or, more generally, from alternative opportunities.

[1] For example, Barnard (1938), p. 88, seems to use the word "motive" for the term "purpose" to realize for the satisfaction of personal needs. On the contrary, in pp. 17–19, the distinction between motivation and ends is clear; the author states: "We shall call desires, impulses, wants by the name 'motives'. They are chiefly resultants of forces in the physical, biological, and social environments, present and past. In other words, 'motives' are constructions for the psychological factors of individuals in the sense previously discussed in this chapter."

[2] Human behavior is mostly directed towards the realization of ends in order to satisfy its own needs in tension. Behavior is, therefore, largely conscious and rational. However, in order to better evaluate human behavior it is also necessary to consider the "field," the "situation" in which individuals act. Maslow says, "Only rarely can the field be used to conclusively explain behavior. In addition, the field itself must be interpreted according to the human organism. The '*field theory'* cannot replace '*motivation theory'*" Maslow (1943), article in Sexton (1970), p. 144.

5.3 In Every Organization There Is a Purpose, Which Is the Unifying and Coordinating Principle for the Activities of the Members

Barnard begins by observing that a company or organization, whether simple or complex and of whatever type (oriented to profit or towards solidarity, mutuality, charity, etc.), "is always an impersonal system of coordinated human efforts; always there is purpose as the coordinating and unifying principle."[3] The need to have an end, "the necessity of having a 'purpose' is axiomatic and implicit in the words 'system', 'coordination', 'cooperation'".[4] A valid organization—in the opinion of the author—in addition to a unifying "common end" also needs the "capacity to communicate" this end to participants and their propensity to "contribute" to company activity by supplying services; it also requires management inspired by effectiveness and efficiency "in maintaining the integrity of purpose and the continuity of contributions".[5] All these elements are indispensable to maintain the system in equilibrium. The end (or rather the system of organizational objectives declinable according to the hierarchical scale) is a prerequisite for the will to cooperate and for communication.

5.4 Cooperative and Subjective Aspects of Organizational Purposes

According to Barnard, each organizational purpose has two aspects for each person who cooperates: (a) cooperative aspect; (b) subjective/individual aspect.

When the individual has a vision of the purpose as "a cooperative act" (required by the organization), he considers it objectively, as would an external observer: he

[3] Barnard (1938), pp. 94–95.

[4] Ibidem, p. 86.

[5] Ibidem, p. 95. Barnard points out, as we have seen, that the determination of the general purpose of the organization and the articulation in a system of company objectives is the central moment of the development of the cooperative system.

The specification of the overall purpose (mission) is decisive regarding the operation of the organization. For example, to say that a company should pursue the maximization of value for shareholders, or to affirm otherwise, that the purpose of the same company consists in producing and selling goods and services desired by customers (with the constraint of economic equilibrium) not is not the same thing: the way to govern the organization, the financial results, the quality of life of the organization's members, etc. vary according to the end adopted. We will return to this topic in Chaps. 7, 8, 11, and 12.

On this point it is very interesting to read the article by Bartlett and Ghoshal (1994), that focuses on the objective of the company, claiming that its mission is the moral response that the organization gives to its *stakeholders* (defining consequently its responsibilities) and not the plans that are adopted for the economic exploitation of the commercial opportunities offered by the environment.

regards it from the point of view of company interests. More specifically, he interprets it thinking what the purpose means for the organization as a whole.[6] In this case, the individual takes on—according to Barnard—an "organizational personality": he evaluates the purpose considering the company aspect and more particularly, the functions and organizational interests.

The individual or subjective aspect emerges, conversely, when the person judges and evaluates the purpose, considering what it means for him in terms of personal sacrifices imposed by the cooperation and the benefits that he derives. On this hypothesis, according to Barnard, he takes on an "individual personality" in order to discover and weigh the value of the relationship between the end and his personal motives.

To explain the above concepts, the author presents the following example. Five men cooperate (and therefore this is, in fact, an organization) to move a boulder blocking a road. The end is clearly "to move the rock." If the single participants think about what the shifting of the boulder means for the organization (for example, the possibility of passing on a stretch of road to manage an economic activity that produces benefits for the company) then you are in the presence of a *cooperative vision* ("company vision") of the purpose. If, however, people think of the meaning the end has for them, and the psychological and physical sacrifices to be borne and the time to be dedicated on the one hand, and the economic and immaterial benefits that are ensured, on the other, this is a *subjective vision*.[7]

5.5 Organizational and Individual Ends

Barnard states that it is essential to distinguish between *organizational and individual ends*.[8] This is because, apart from rare exceptions, the two do not coincide.[9] It is rare, according to the author, that an organizational end *directly* satisfies personal unmet needs and *directly* stimulates individuals to cooperate; it is rare that a company end (required in business programs) automatically becomes the only or the most important individual end and therefore an instrument capable of directly and fully gratifying personal motives.[10]

[6] Barnard (1938), p. 87.

[7] Adopting the terminology of Barnard, in the first case people display an organizational personality, while in the second an individual personality.

[8] This distinction is very important and will affect future studies of economics and management: it will be the key point of the modern "agency theory."

[9] "Individual motive is necessarily an internal, personal, subjective thing; common purpose is necessarily an external, impersonal, objective thing even though the individual interpretation of it is subjective." Barnard (1938), p. 89.

[10] Barnard states, p. 89,: "It is rare, however, if ever, and then I think only in connection with family, patriotic and religious organizations under special conditions, that organization purpose becomes or can become the only or even the major individual motive."

A critical note seems appropriate at this point. Certainly, considering the organizational objective, consistent with moving a boulder, it is difficult or unthinkable that this can constitute an individual objective directly and thus a direct means to gratify motives in tension of a single participant, if he is not directly interested in operating in this way. But the organizational roles in modern companies—especially in organizations that use advanced technologies—are complex and can (if specially adapted) directly satisfy the personal needs for competence, knowledge, independence, self-confidence, *status*, prestige, power, and self-realization[11] of those who hold those roles. Indeed, the fundamental task of the capable leader is precisely to create, the organizational structure and operational conditions that allow employees to gratify their needs, in the performance of their work (in operational activity).[12] In our view, this is a weak point in Barnard's theoretical incentives system. While considering "immaterial incentives" not based on monetary rewards, he seems to prefer, however, a "socialization model" (adaptation of personal to organizational goals) to an "integration model" of objectives (fusion model). This will be discussed in detail later, when dealing with the "economy of incentives theory" (Chap. 7), the characteristics of an effective executive (Chap. 9) and, above all, in Sect. 12.7 in the conclusions on Barnard's theory of management and leadership.

Returning to general purposes, Barnard underlines that companies can change their unifying purpose in the course of time. In fact, they tend to perpetuate themselves and in the effort to survive may change the reasons for their existence.[13]

This is a fundamental task of the executive, who must be well aware that to ensure the survival of his business, he must maintain in equilibrium the complex system of company objectives, personal goals, contributions made by members, incentives dispensed by the company, also taking into consideration the "overall external situation." This situation—according to the author—must be faced by assessing, in the course of time, both the relevance of the general purposes of the company with respect to the environmental situation (importance and attractiveness of goods and services produced), and relations between the company and *stakeholders* that must conform to the requirement of efficiency.[14]

When a common goal is pursued through an organization, it becomes, to all effects, an organizational purpose; and it is generally different from individual purposes. However, this means that if management want the system to work, they must be able to stimulate and coordinate all organization participants and induce them to work together. For this purpose, management must develop the "organizational

[11] Reference was made to Maslow's hierarchy of human needs. On this point, see: Maslow (1943), pp. 144–153.

[12] These statements concern the relationship with employees of all levels. However, it can be extended, even if it becomes much more complicated, to relations with other *stakeholders*: customers, financiers lenders, suppliers, state and institutional bodies, local communities, etc.

[13] Barnard (1938), cit., p. 89.

[14] Ibidem, p. 82; see also p. 43. Efficiency is understood by Barnard as the company's ability to satisfy the expectations of internal and external *stakeholders*.

personality" of participants, to make them sensitive to company interests. This implies that they must meet the "requirements" of the organizational roles assigned to them. If the "personal goals" related to personal motives are very different from those of the organization, the problem for management becomes very complicated and it will be necessary to design and implement suitable incentives and systems of persuasion that create and maintain the will to cooperate. Barnard emphasizes that, for management, this is the fundamental problem in all organizations (commercial, governmental, military, recreational, academic, etc.).[15] This is the central point on which the theory of cooperation developed by the author hinges.

5.6 General Purposes of the Organization and Its Sub-system Objectives: The Means-Ends Chain

In developing his theory on company objectives, Barnard distinguishes between the organization's general purpose and particular objectives concerning its sub-systems.

The first (which configures the company *mission*) is defined by the author as "the aggregate of action taken"[16] and is the consequence of decisions that determine the relationships between the company and the environment. The objectives of sub-systems are derived from analysis of the general purpose and can be regarded as a "means" to achieve it. This also applies to the entire company system; particular *objectives*, conversely, are referred to the various sub-systems or units in which the company may be divided. These units are governed by managers, who are assigned the responsibility for the objectives and the delegation of authority to achieve them. The sub-systems, in turn, can be subdivided into lower-order organizational units, which are given increasingly specific objectives.[17] This creates a chain of connected and interdependent objectives: means-ends chain. This chain must be respected if the organization is to proceed harmoniously and effectively towards the realization of the general purpose, which, however, Barnard affirms must be accepted by all participants.[18]

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[15] Ibidem, p. 83, p. 94 and pp. 153–160. The problem of making compatible individual motivations and goals with those of the organization was not new when Barnard wrote; it was anticipated and analyzed by Marx, Taylor, and the Human Relations School. Even today, the issue is debated by sociologists, economists, and scholars of organization and management with conflicting results.

[16] Barnard (1938), p. 231.

[17] "The purpose must be broken into fragments, specific objectives, not only ordered in time so that detailed purpose and detailed action follow in the series of progressive cooperation, but also ordered contemporaneously into the specifications – geographical, social and financial – that each unit organization implies" (Ibidem, p. 231).

[18] Barnard (1938), p. 231.

5.7 Definition of Organizational Structure: Organizational Roles, Communication Lines, and Information System

The process that determines the general purposes and objectives (which we could correctly define as planning) overlaps—according to Barnard—with the process that creates the organizational structure and communications system.

The organizational structure consists of a set of specialized roles to be assigned to personnel; these roles are connected by authoritarian and non-authoritarian lines of influence that form the lines of communication. The lines are the means through which the information that feeds the decision-making, execution, and control processes flows. In particular, they permit the organizational system to remain constantly oriented towards the overall purposes.

More precisely, corporate functions necessary for the realization of these purposes are identified by the organizational process moving from the general purposes of the organization. These functions are divided according to various criteria: specialization, geographical areas, etc. By decomposition or aggregation of these functions, the "organizational positions" are created and consequently the roles to be assigned. Coordination of roles is realized by defining authoritarian and non-authoritarian "lines of influence" and the communications system. The establishment of the organizational structure and the information/communication apparatus permits the various organs to focus their capacities and energies on the performance of specialized tasks; it also allows the same organs to form stable expectations about the behavior of the other participants in the operating system and the relationships between the various organizational positions. The roles include the tasks, responsibilities, authority, and other types of influence to be assigned to those whose positions have been attributed. With the creation of the organizational structure, "structural coordination" is created: the behavior expected by the various organizational units and the relations expected between them are thus established in general terms.

According to Barnard, the organizational structure matches the system of company objectives determined by the planning process.[19] In fact, this is symmetrically structured with respect to the structure of organizational positions (roles). It follows that the decisions (which determine the purposes and objectives) and the concrete behavior of people make the organizational scheme a working system. However, the system must operate in a coordinated manner so that decisions and operations at the various organization levels (from bottom to top) are coordinated and thus consistent with each other and directed together towards the ultimate goals of the company system.[20] Barnard expresses these concepts as follows: "the general executive states

[19] Barnard is not speaking about the planning process, but of decisions taken by the various participants in a process that involves the articulation of the general objectives by increasingly specific objectives until operational activity is reached.

[20] Simon (1948, chap. I) thinks that any decision-making process chooses active or passive behavior to achieve a certain end, and, in turn, this end can be mediated by another end further away, and so on, until a relatively final objective is reached. However, the concept of teleology inevitably

that 'this is the purpose, this the objective, this the direction, in general terms, in which we wish to move before next year'. His department heads, or the heads of his main territorial divisions say to their departments, or sub-organizations: 'this means for us these things now, then others next month, then others later, to be better defined after experience'. Their sub-department or division heads say, 'this means for us such and such operations now at these places, such others at those places, something today here, others tomorrow there'. Then district or bureau chiefs in turn become more and more specific, their sub-chiefs still more so as to place, group, time until finally purpose is merely jobs, specific groups, definite men, definite time, accomplished results. But meanwhile, back and forth, up and down, the communications pass, reporting obstacles, difficulties, impossibilities, accomplishments; redefining, modifying purposes level after level."[21]

5.8 The Formulation of General Purposes According to Barnard

For Barnard, the process of formulating the general objectives of the company and the objectives assigned to the various levels of the organizational structure is somewhat *distributed* in the sense that there is "pluralistic and integrated" participation, even if he recognizes and stresses that "responsibility for abstract generalizing, prospective, long-run decision is delegated *up* the line."[22]

This fact, in his opinion, is the most "critical" point regarding cooperation systems. In other words, he is well aware that the following phenomena are major difficulties for executives:

(a) the need to "catechize" those at lower levels of the organization so that they bear in mind the higher-order purposes so that cohesion remains among them and they are able to make consistent decisions;
(b) the need for executives, positioned at the highest levels, to understand "constantly the concrete conditions and specific decisions" of those in the organizational roles of a lower order, from which executives are often insulated.[23]

Barnard is also convinced that both these phenomena represent acts of necessary coordination, to make decisions and behaviors consistent and not managerial decisions that disrupt the cooperative process.[24] Basically, "it is an entire executive

leads to the notion of "*hierarchy*" of decisions, each step of this hierarchy representing a means for the realization of the objectives of the step above.

[21] Barnard (1938), p. 232.

[22] Barnard (1938), p. 232.

[23] Barnard (1938), p. 233.

[24] "Without that up-and-down-the-line coordination of purposeful decisions, general decisions and general purposes are mere intellectual processes in an organization vacuum, insulated from realities by layers of misunderstanding. The function of formulating grand purposes and providing for

organization that formulates, redefines, breaks into details, and decides on the innumerable, simultaneous and progressive actions that are the stream of syntheses constituting purpose or action."[25] In other words, according to the author, decisional power is widely distributed among the various organization members.

5.9 The Determination of General Purposes Is Not the Product of Equal Participation of the Various Members of the Organization in the Decision-Making Process

As Barnard observes, in organizations, especially large ones, including the big *corporations* that characterized the American economic system in which managerial capitalism was established, decisional power was divided into multiple decision-making centers with more or less relevant freedom of choice. There is no doubt that this deliberative structure did not reflect either Taylorist or Fayolian organization or the bureaucratic model of K.E.M. Weber. They all went into crisis because of scientific and technological progress, the profound changes in the financial, consumer and labor markets, and social and cultural changes that had greatly affected the subordination rule based on hierarchical authority.[26]

The management of the most complex and dynamic organizations required the use of specialized knowledge in multiple fields: marketing, finance, technology, information technology, relations with trade unions and institutional bodies, human

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their redefinition is one which needs sensitive systems of communication, experience in interpretation, imagination, and delegation of responsibility." Ibidem p. 233.

[25] Ibidem, p. 231.

[26] The model of K.E.M. Weber, of 1922, is outlined in *Economy and Society,* Bedminster Press, New York, 1968, Vol. I, p. 217 and following and Vol. III, p. 956 and following.

The ideal bureaucratic model—but the discussion also applies to substantially similar patterns of classical organizational theory and also for the subsequent "administrative organization theory of labor" (Fayol and Urwick)—it was certainly not able to interpret the structure and operation of large enterprises (especially commercial) of the American managerial economy and in general, the companies operating in sectors characterized by considerable dynamism. In that model, the top management, in relation to the purposes to be achieved, created an organizational structure that included duties, responsibilities, and specific powers. The organizational centers located below the top management had no discretionary powers; specifically, the objectives of each unit, the means and the ways to achieve the objectives were analytically specified by the top of the organization. Procedures and operating rules regulated the activities of the organizational system, eliminating any discretion. Managers, owners of the units placed under the top of the organization, were simple "order-passers" and were concerned essentially to control their subordinates in order to make them comply completely and correctly with the requirements and procedures established at the top. The "knowledge" of the organization was concentrated at the top that "recapitulated" and held the specialized skills needed to take all business decisions rationally. In essence, the company moved and evolved because of impulses generated by top management, who imposed their decisions primarily through authority.

resource development, etc. The "knowledge" could not be concentrated in the top management, but was spread among a multitude of specialized professionals, who influenced each other and, naturally, had to be organized in order to coordinate their specific efforts. The effectiveness of company systems depended on the capacity to adapt business to the dynamism of the external environment and to make the conduct of specialists consistent with the organization's interests (ability to develop and maintain a cooperative system). Ultimately, as decision-making power was widely distributed among many people variously arranged in the organizational framework, the behavior of effective and efficient companies then appeared as "resulting," not only from the impulses of top management, but also from the contribution of all organization participants with professional skills.

Barnard was certainly conscious that the *rational operation of organizations depended greatly on a "pluralistic" and "organically integrated" decision-making structure* and there is no doubt that he considered that such a structure would enable the organizations to adapt to the environment and to develop an elastic and unified management. However, the author *does not stress very strongly* that the company's behavior, however "pluralistic," is not "derived" from the decisions of all the organization participants operating in a "fully equal" position: in essence, Barnard does not emphasize the fact that you cannot assign equal importance to the various participants in the organization because the basic guidelines, namely the general aims and evolutionary strategies of the company, are the competence of top management and constitute the necessary premise for all the lower-order decisions. In other words, while, on the one hand, Barnard points out that the general guidelines are influenced by various internal specialists and by contributions from external *stakeholders* such as customers, suppliers, and lenders (with whom it is therefore necessary to develop a series of efficient cooperative relations), on the other, *he does not explicitly specify that the strategic orientation of the company is substantially determined by top management. Top management appears as the central direction unit* that identifies the evolutionary paths of the business system and governs its behavior. This fact has helped create some perplexity and has stimulated different points of view on how Barnard interprets the behavior of complex organizations.[27]

5.10 The Theoretical Approaches of Cyert, March, and Galbraith and the Formulation of the General Purposes of Companies

Barnard's assumption that general purposes are determined with the contribution of internal organs and external stakeholders has influenced many scholars: economists, sociologists, corporatists, etc. Among the economists it seems interesting to

[27] This subject is dealt with in Chap. 12.

highlight the contributions of R.M. Cyert, J.G. March,[28] and J.K. Galbraith[29]: the first two are micro-economists, experts in enterprise behavior theory; the third was an internationally renowned macro-economist, scholar of "managerial capitalism," and the behavior of "mature corporations."

Cyert and March, in developing their theory on enterprise behavior, like Barnard, assign a fundamental role to the various groups interested in the business and enterprise results. An organization—the authors point out—is a coalition of individuals, some of whom are organized in sub-coalitions. In an economic organization, the members of the coalition include executives, employees, shareholders, suppliers, customers, legal consultants, tax collectors, public control offices, etc. In public administration organizations, members are administrators, employees, public officials covering elected roles, legislators, judges, the spokespersons of interest groups, etc. In voluntary charitable organizations, there are remunerated officials, volunteers, donors, etc. It is impossible to draw the boundaries of the coalition of an organization once and for all.

According to Cyert and March, the definition of the objectives of an organization requires that the problem of conflicts of interest that exist between members of the coalition is resolved in some way. The topic is very complex because, while people have objectives, the organization (collectivity of people) does not have specific objectives. Then the problem can be presented as the need to specify the objectives of the organization "without postulating an organization mind," which, of course, does not physically exist.[30]

According to the authors, the traditional patterns used to define the organization's objectives can be traced back to the following two types:

(a) the "business model" that sees the organization consisting of an entrepreneur and a staff. The entrepreneur (represented either by an external group of shareholders or by a limited group of executives) outlines the purpose of the company and therefore the entrepreneur's goal becomes the objective of the enterprise. The entrepreneur or the management group expressing the entrepreneurial function uses a system of incentives (material and immaterial) to govern the conduct of the people working in the company and to manage the requests of external *stakeholders*;
(b) the "model of consent" by which the various participants, through discussion, express a common unifying goal which directs the company and rewards their expectations; this occurs by finding a joint order of preference of the requests/objectives of the participants.[31]

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[28] Cyert and March (1963); Italian translation: *Teoria del comportamento dell'impresa* (1970). This edition is referred to in subsequent citations.

[29] Galbraith (1967).

[30] On p. 84, the authors state that the idea of organization objective and the concept of organization as a coalition are inherently contradictory.

[31] The model illustrates the decision to "belong," the balance between company incentives and commitments of participants, the conditions for the survival of the company. The organization appears as an instrument that manages the "payments" to participants (capitalists, workers, etc.) in

According to Cyert and March, these solutions cannot work. They are badly constructed, both because the real company objectives cannot be determined by "a joint order of preference," and because the same objectives, as they are normally identified in reality, are the product of a very ambiguous agreement between participants.[32] In addition, in the view of the authors, there are studies showing that a lot of uncertainty on the determination of sub-goals derives from this ambiguity. Contrary to the traditional models—conclude the authors—recent theories on the objectives of organizations describe them as the result of a continuous process of negotiation-learning[33] put in place by the *active members* of the coalition. More precisely—according to Cyert and March—the formulation of coalition objectives involves three steps:

(1) a contracting process in which the composition of the coalition and the objectives that it pursues are fixed;
(2) a process of "stabilization" of the objectives;
(3) a process of adjustment of the objectives, with which the agreements between the participants to the variations of their aspirations are adapted over time.

On the first point, the authors observe that you should not put the emphasis on "asymmetric influences" among the participating groups. However—in their opinion—the participants are not all equal; for example, some dedicate much less time than others to that particular coalition. This criterion is used to delineate organizational boundaries, distinguishing the "external" and "internal" members of the coalition. It is mainly by negotiation, which takes place inside the *active group*, that the objectives of organizations arise.[34] The contracting activity is the process by which the organization's objective is specified.[35] The contracting activities focus on "part payments": rewards/compensation/incentives provided by the company and requests for compensation/rewards/incentives formulated by each single participant in the active coalition. The part payments consist of monetary rewards and "political commitments" to be undertaken with the contracting processes, such as immaterial rewards, concessions on participation in the specification of company policies, regulation of the use of authority, and distribution of company management functions. Fundamentally, by the contracting process, monetary payments and "political commitments" are defined in relation to the commitments made by individual participants. Therefore, the "contracting process" is the mechanism by which the fundamental objectives of the organization are formulated. This process, according to the authors, is only loosely connected to the contracting that qualifies the "theory of perfect rationality."[36] In fact, given the particular nature of the contracting, the objectives specified tend to take on the following characteristics: (a) they are

relation to the need to attract and retain them.

[32] Ibidem, p. 48.

[33] Passim.

[34] Ibidem, p. 50.

[35] Ibidem, p. 51.

[36] Ibidem, p. 53.

imperfectly rationalized (consistency checking between the payments requested and company policy is not complete); (b) some objectives are specified as general aspiration; (c) certain objectives are specified in non-operational form.[37]

Cyert and March also affirm that the contracting process between the members of the coalition determines the company goals in response to short-term pressures.[38] Therefore it is necessary to have a long-term process of adaptation of objectives in relation to variations in the coalition structure and the requests of its members.

The above brings us to point (2) above. The authors state that the objectives identified must be "stabilized" through continuous monitoring of agreements over time also because, at the time of the initial bargaining, the future importance of many phenomena and conditions cannot be predicted or evaluated.

As for point (3), the authors report that "payment applications" of participants vary over time in relation to the aspiration level of the individuals connected with the results achieved over time. The variation may regard both the nature of the requests and their quantitative level. This is why objectives, through experience and expectations, are subject to adjustment in the long run. In essence, the process of specification of objectives is continuous.[39]

And now we come to Galbraith who, as mentioned, was very probably affected by Barnard's theories on decision-making power in large corporations. Galbraith starts from the indisputable assertion that, in industries characterized by large "mature companies," the need to use and coordinate various specialist skills imposes the need for organization and therefore group activity. In the author's opinion, a company can be thought of as a committee system. The coordination consists, in turn, of assigning suitable people to the various committees, intervening to urge a decision and, where applicable, to make the decision known, to use this information for a further decision by a committee of a higher level.[40] According to the author, power in companies and in society belongs to groups rather than to individuals.

According to Galbraith, the power of individuals and groups in complex organizations is derived largely from the skills possessed and the "exclusivity" of those competencies. The powers to initiate, analyze, develop, and approve projects are widespread in the organizational structure and follow peoples' skills. Galbraith underlines that the actual decision-making power is firmly located in the staff of technicians, programmers, and other experts.[41] In large companies, the president,

[37] Ibidem, p. 53.

[38] Ibidem, p. 69.

[39] Ibidem, pp. 56–58.

[40] Galbraith (1967), chap. VI; the author points out that the need for this group personality depends on the fact that in industry today a large number of decisions and all the important ones are based on information available to many people. As a rule, they are based on scientific and technical specialized knowledge, on information, and on the accumulated experience and the artistic sense and intuition of many people. All of this is directed through additional information, ordered, analyzed, and interpreted by experts through the use of highly technical equipment. The final decision will be taken only when it is based systematically on the contribution of all those whose information is relevant.

[41] Ibidem, chap. VI.

the board members, some vice-presidents, the division heads, and other top management therefore exercise modest, effective decision-making powers. Often they have more powers of ratification than of effective decision. In the author's opinion, the thesis according to which the company top management bodies have the full capacity to negotiate and decide strategic questions of maximum relevance even without interfering in decisions of a lower order is not sustainable. On the contrary, the author states that these problems, if really significant, necessarily require the integration of various professional skills present in the organization. Therefore, top management, according to Galbraith, has less power than commonly believed. Its main power is to establish and reorganize the various groups of specialists according to business needs. The fundamental factor of company behavior is therefore "group organized intelligence." This complex group of specialists—denominated by Galbraith *technostructure*—is vast, going from top management to white and blue-collar workers; inclusion in this group depends on the capacity to contribute to decision-making processes with specialized information. This broad group forms the directive intelligence—the brain—of the enterprise.[42]

5.11 Concluding Remarks on Equal Participation of the Various Stakeholders in the Formulation of the General Purposes of Companies

As we have seen in the previous pages, the purpose and general objectives of companies, according to Cyert and March, should be determined by a very broad group of "active participants." For Galbraith the real "directive intelligence" is represented by the whole "technostructure."

We are unable to share these conclusions, which, however, are not even in line with Barnard's thought. Our analysis starts from the realistic assumption that, in more complex organizations, every decision-making process of a certain importance sees the participation of various specialized individuals who identify problems, define them, develop alternative solutions, evaluate the consequences (economic, social, psychological, etc.) associated with the various alternatives, and "prepare" the platform for the final choice. An important decision—as Simon observes[43]—is similar to a great river that derives from its many tributaries the premises that flow together to form it. However, the necessity to coordinate company system activity involves a hierarchy of decisions[44] in order to avoid "positive entropy" and therefore disintegration and disorder. In fact, the most important decisions (denominated "strategic," which concern the determination of the general purposes of the company, the general objectives to realize, and the strategies to follow) are taken mainly by top management organs. However, these organs reserve for

[42] Ibidem, chap. VI.

[43] Simon (1958), Introduction.

[44] Ibidem, chap. I.

themselves the final choice between the alternative strategies developed by company organs of a lower level with specialist skills. Below the strategic decisions, there are the "tactical" decisions concerning company sub-systems (divisions, departments, etc.); with such deliberations and objectives, policies related to sub-systems are identified. Tactical decisions are the means to achieve higher-order decisions, and therefore are the moments of application of strategic decisions. At a lower level, we find "operational decisions," which establish objectives, policies, and business activities of the units in which business sub-systems are organized. Since the total "organizational knowledge" is not, and cannot be, exclusively possessed by top management, most of these decisions are delegated, according to the skills required, to a multitude of organs variously arranged in the organizational structure. Of course, since organizations are socio-economic systems oriented towards a general purpose, it is essential not only to establish a rational means-ends chain of objectives and decisions, but also to enforce this chain with the tools provided by the organization. This involves both formal authority, and above all, the acceptance of subordinates, creating, the structure and operating conditions that induce people to respond to the "requests" of the organizational roles.

In essence, it is true that in complex organizations there is a "pluralistic," "organically integrated" decision-making structure based on specialist skills. It is true that the relations between the organs that take different hierarchical level decisions (strategic, tactical and operational), and relations between the organs participating in a single decision-making process are *organic* or "two-way," meaning that they are characterized by reciprocal influences and exchange; however, these relations do not have the same "power of conditioning" and the same "priority" in the overall decision-making system. More specifically, the higher-order decisions provide the assumptions for the lower-level decisions; they act as a guide, as a guideline, for hierarchically lower resolutions. It follows that top management takes the strategic decisions (and in any case makes the final choice between the strategic alternatives developed also with the contribution of the technostructure); it has the possibility to limit, direct, and condition the freedom of choice of the lower-level organization unit members, thus keeping them constantly oriented towards the general objectives. In other words, even if the behavior of the company appears to be the "result" of a system of decisions of a multitude of people variously located in the organizational framework, the company's top management is the primary source of direction and regulation. Therefore senior management is the real holder of power and company control. It therefore constitutes the central unit of direction and control.[45] Ultimately, top management, consisting of a limited coalition of owner–managers, or manager–officials or a combination of these executives, performs the following functions:

(a) it substantially determines the overall purpose of the company (mission), the general objectives and general strategies (choice of product/service, market, technology, and competitive factors, the use of resources and choice, in particular, of personnel management models);

[45] Zanda (2012), p. 98 and ss.

(b) it establishes and enforces the hierarchy of decisions and produces, for this purpose, the rules of operation and rules to coordinate business sub-systems;
(c) it motivates the organization, creating the "general climate" in which company activity takes place; this happens on the basis of a specific management model which permeates the organization.

From the above it follows that the strategic orientation of the company and the related objectives are identified in relation to the motivation of the people in the core group that holds power.[46] This group will probably assign the organization a high-level system of objectives (a system which is commonly defined as the "utility function"), which is able to satisfy the motivation of people who compose it (safety, social, self-esteem, respect of others, and self-realization).

The motives relating to the survival and development of the company appear to be the priority. They are connected both with the ability to continuously create "new vital energy" (which is linked with knowledge, creativity, and innovation, to be developed within the company or acquired outside), and with the attitude to combine economic rationality with ethics in order to recover the concept of "company as a community," developing basic behavior and moral principles (most often) hidden inside the consciences of those who manage.[47]

In this way, top management develops a *utility function* that reflects an "organizational personality" which is in line with the need to create a cooperative system oriented towards the common good. This utility function can also be very different from the one closely related to the "individual personality" of individual executives. The orientation towards the acquisition of an "organizational personality" should tend to develop gradually as executives take on greater responsibilities and, in particular, when they become part of the select group responsible for the strategic evolution and control of the organization. At that moment every manager has great power; he becomes responsible for the lives and welfare of many participants. It is therefore natural that he should take on great social responsibility, without being able to give implausible justifications such as those according to which it is the market, shareholders, and inescapable mechanisms of competition that induce him to follow choices that neglect the "common good" and that, sometimes, are contrary to respect for people and their development.[48]

At the end of the section, we must emphasize that Barnard believes that in the organization of complex companies, as a rule, there is a pluralistic process to define objectives. In other words, in his opinion, the company does not evolve exclusively because of a central impulse. It is not therefore comparable to a mechanical system, but rather to a biological type of entity, which moves by virtue of peripheral initiatives taken by various organizational units that regulate themselves, which are conditioned by belonging to a unitary system and which therefore are coordinated by specific determinations issued from a central management and control unit.

[46] Caselli (1966), p. 5; Marris (1965); Salvati (1967), p. 138.

[47] Küng (2011), pp. 7–15 and 203–263.

[48] Goshal and Moran (2009), chap. I. This chapter coincides with the publication of Goshal and Moran (2006).

Barnard does not emphasize sufficiently the powers of the top management and the existence of "asymmetries of power of influence" within the organization. The top body is seen and described as a unit that principally acts to coordinate and which does not systematically use orders and directives to guide and regulate the conduct of participants. Barnard was a top manager and knew very well the power that he was able to exercise in the organizations he managed. He had great responsibility and consequently had considerable power to influence the conduct of company members. He could appoint, remove, replace, and reward lower level managers. He had the right to establish and reorganize the decision-making and control groups composed of specialists. He could develop ideas for new projects and reject or integrate the projects of others. He could also use authority to impose his will and, above all, with regard to strategic decisions, it was his right, legitimized by the organization, to reserve the final phase of the decision-making processes: the choice between the various alternatives developed by the specialists of the technostructure. However, as was and is typical of every top manager, Barnard publicly tended to minimize the role of authority and avoided declaring the existence of "asymmetries of power of influence" within the organization, because this contrasted with the purpose of developing mutual trust with employees and creating operating conditions that promoted commitment, imagination, creativity, and collaboration of personnel.

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Chapter 6
Barnard and the Theory of Authority

Abstract In this chapter, we explain the theory of authority developed by Barnard. This theory is a milestone in the development of studies on the organization and the management of for-profit and non-profit companies. The phenomenon of authority cannot be fully understood unless we favor the so-called subjective aspect and the objective aspect. Barnard affirms that "the objective aspect" of authority is of great importance for executives and for scholars because this profile concerns the organizational structure and, in particular, the control lines (defined as lines of communication), which have the task of "holding together" the structure, to create order, stability, and coordination of management activity.

6.1 Introduction

Mary Parker Follett,[1] considered by Drucker the "prophet of *management,*"[2] was, for Barnard, the most important reference point on the subject of authority; her thought deeply affected the author, allowing him to develop an original theory of authority. She also influenced many later scholars, including H. Simon,[3] one of the most important analysts of administrative behavior and the role of authority within organizations.

Parker Follett is one of the leading pioneers in the study of management and, more particularly, organization and organizational behavior theory. Her ideas on the importance of informal organization, on the possibility to develop a theory of collaboration, on the resolution of company conflicts, on the "law of the situation" to mitigate conflicts, on the concept of authority (the right to control) and power (the capacity to control), on the process of participation of employees in decisions and their integration with a leadership based on the concept of "*power with*" rather than

[1] The main writings of M. Parker Follett are the following: *The New State: Group Organization, the Solution of Popular Government*, 1920; ID., *Creative Experience*, 1951 (printed in 1924); ID., *Dynamic Administration*: *the Collected Papers of Mary Parker Follett*, in Metcalf and Urwick (Eds.), 1941; this text is available in Italian: Parker Follett (1970). Complete texts of some of the author's works can be found on the website: http://mpfollett.ning.com.

[2] Cfr. Graham (2003).

[3] Simon (1958), chapter VII.

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"*power over*" have left their mark in the field of business studies, and are characterized by an impressive level of modernity. The solutions that the author envisaged in the 1920s and 1930s are substantially in line with those of modern scholars of the subject.

Follett defines formal authority as the "right of control" over others and more specifically, as the right of command, legitimized by formal organization. Conversely, she considers power as the effective capacity to realize things, or the "capacity to control."[4] According to the author, formal authority can exist without power, without the capacity to influence the conduct of others; this occurs when commands are not shared by the passive subject of the relationship. She therefore considers that the exercise of power is connected to the integrated resolution of conflicts through participation. To this end, she develops the "law of the situation," according to which, management and employees should determine business objectives and the programs to achieve them through the adoption of an integrated participatory process, characterized by similar relationships to those found in decision-making processes among peers.

Barnard, in a sense, goes further and connects the existence of a manifestation of authority with the effective acceptance of received commands. More precisely, Barnard distinguishes two aspects of formal authority: (a) subjective aspect and (b) objective aspect.

6.2 The *Subjective Aspect* of Formal Authority: The Assent of the Individual Who Receives the Order Determines Its "Authoritative Character"

"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; that is, as governing or determining what he does or is not to do as far as the organization is concerned."[5] This aspect is fundamental for Barnard, because it is the *essence* of authority.

The subjective aspect, namely the acceptance of a communication, is the source from which authority flows and, therefore, is emphasized; while the second aspect, which has to do with the *nature of the order* (formal act that comes from the organization, which specifies the right to command and the obligation of obedience), remains partially in the shadows.

Barnard emphasizes not so much the power of authority (that is, its persuasive value based on rewards that can be given and sanctions imposed by whoever has the power to issue commands), but rather the limits of authority, which finds in consent

[4] More precisely, formal authority is the potential capacity to realize things through others; power, however, is the capacity to get things done effectively.

[5] Barnard (1938), p. 163.

the reason for its existence. What emerges in this theory of authority is that, if an organizational communication is accepted by the person to whom it is addressed, the authoritative nature of the communication is confirmed or ratified and the same communication "is admitted as the basis of action. Disobedience of such a communication is a denial of its authority for him. Therefore, according to this definition, the decision as to whether an order has authority or not lies with the persons to whom it is addressed, and does not reside in 'persons of authority' or those who issue these orders."[6] Ultimately "authority lies always with him to whom it applies."[7] This is true for commercial companies, companies based on mutuality and solidarity, and for political institutions and public administration.

The conception of authority as reported above—the author states—is in contrast with the commonly held view. But, in his opinion, it cannot be deeply understood without analyzing the "subjective moment." The individual's assent is indispensable to confirm the authoritative character of a communication and this acceptance—according to Barnard—can only occur if the following four conditions are satisfied simultaneously:[8]

1. the person who receives the order can understand the communication received;[9]
2. in the moment in which he receives the order, he believes that it is not inconsistent with the aims of the organization;[10]
3. in the moment of his decision, he considers it compatible with the system of his personal interests;[11]
4. "he is able mentally and physically to comply with it."[12]

To the objection that authority thus understood (the power of authority resides in the subordinate person) would make it impossible to maintain effective continuity of management or continuity of cooperation, Barnard replies that the objection is

[6] Ibidem, p. 163.

[7] Ibidem, p. 183.

[8] Ibidem, pp. 165–166.

[9] Orders are often incomprehensible; sometimes they are expressed in general terms and therefore must be interpreted by the recipient; in these cases, there is no order in the strict sense.

[10] Sometimes there can be conflicting orders. In these cases, a procedure is necessary to resolve the conflict, attributing priority either to a certain characteristic of the order or to its origin or the time of receipt, etc. Until we solve this problem, there is no real acceptance and consequently, there is no manifestation of authority.

[11] "If a communication is believed to involve a burden that destroys the net advantage of connection with the organization, there no longer would remain a net inducement to the individual to contribute to it. The existence of a net inducement is the only reason for accepting any orders at all." Ibidem p. 166.

[12] Ibidem, p. 165. On page 166, the author states: "To order a man who cannot swim to swim a river is a sufficient case. Such extreme cases are not frequent; but they occur. The more usual case is to order a man to do things only a little beyond his capacity; but a little impossible is still impossible."

unfounded, since real company activity is characterized by the presence of the three following situations:[13]

(a) formally issued orders in organizations usually satisfy the four conditions above. The simultaneous presence of these conditions necessarily involves the acceptance of authoritative communication and therefore the continuity of management and conservation of the cooperative system are ensured;
(b) each organization participant is characterized by a "zone of indifference" within which he can accept orders, without, *continually* and *consciously*, questioning their authority.[14] Because the individual tends to classify orders according to a scale of *acceptability–non-acceptability*, there is a point in the scale where a zone of acceptable orders begins, called, the "zone of indifference." In this zone are found all the orders that the participant had expected in a general sense at the time of starting the relationship with the organization.[15] Barnard specifies that the zone is more or less extensive according to the degree to which the incentives paid by the company exceed the contributions requested from the participant by his adhesion to the cooperative system. It follows—underlines the author—"that the range of orders that will be accepted will be very limited among those who are barely induced to contribute to the system";[16]
(c) the *zone of indifference* of a single member of an organization tends to be stable due to the influences exerted by the group on individual participants. The vast majority of participants, when they receive a "benefit" from joining the organization, see a threat to the overall group interests in the refusal of an order by an individual member. Therefore, they have a keen interest in compliance with orders issued at any point of the organization, except when they are judged outside the zone of indifference (and thus considered unacceptable). The defense of this "general interest," according to Barnard, is largely an informal organization task. Its expression goes under the names of "public opinion," "organization opinion," "feeling in the ranks," "group attitude," etc. Thus the common sense of community affects the attitude of individuals, and makes them reluctant to question authority that is within or near the zone of indifference.[17]

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[13] Ibidem, p. 167.

[14] Ibidem, p. 167.

[15] Ibidem, p. 169. Barnard states (pp. 168–169): "If all the orders for actions reasonably practicable be arranged in the order of their acceptability to the person affected, it may be conceived that there are a number which are clearly unacceptable, that is, which certainly will not be obeyed; there is another group somewhat more or less on the neutral line, that is, either barely acceptable or barely unacceptable; and a third group unquestionably acceptable. This last group lies within the 'zone of indifference'."

[16] Ibidem, p. 169.

[17] Ibidem, p. 169.

6.3 The *Objective Aspect* of Formal Authority: Pillar of Organizational Structure

We will now consider the "objective aspect" of authority. Barnard states explicitly that the executive is mainly involved with this aspect,[18] although he considers it less important than the "subjective aspect." It concerns the organizational structure and, in particular, the lines of authority (of communication, Barnard defines them) that "hold together" this structure.

Below we will analyze Barnard's view of the "objective aspect" of authority.

When discussing the creation of the communications system (and related organizational structure) and the problem of determining business objectives, we saw that a company can be regarded as a social system oriented towards general purposes (company mission). These aims are made "operational" by the determination of general objectives (for the whole company) and specification of strategies to achieve them. However, the general objectives can be broken down into secondary order objectives (involving divisions, departments, or other organization sub-systems), which are the means to achieve the higher-order objectives. The objectives of the second order, in turn, are divided into lower-level goals that are the means to achieve the secondary targets and so on. To ensure that the objectives and decisions taken to achieve them are consistent, coordinated, and harmoniously directed towards the general purposes of the company, it is essential to introduce a hierarchy of objectives, decisions, and organizational roles in order to respect the means-ends chain previously referred to.[19]

But this fact means that higher-order decisions act as a guide and as the premise for lower-order decisions. One of the organizational forms of influence by which the means-ends chain is made to be respected is *formal authority* (desired and specified by the organization and reported in organizational manuals, job descriptions, and organigrams). The mechanism of authority is introduced to ensure that the higher-order resolutions[20] guide the decisions of a lower level.

An authoritarian or purely hierarchical relationship has the following characteristics:[21]

[18] Ibidem, p. 172.

[19] Cfr. Granger (1964), Litterer (1965), and Simon (1958), chap. IV.

[20] Naturally, this is true also for objectives, strategies, policies, etc., because all these elements are the product of company decisions.

[21] Barnard (1938) says that authority (objective aspect) is definable as "a character of a communication in a formal organization," and adds, "A 'superior' is not in our view an authority nor does he have authority strictly speaking; nor is a communication authoritative except when it is an effort or action of organization. This is what we mean when we say that individuals are able to exercise authority only when they are acting 'officially', a principle well established in law, and generally in secular and religious practice. Hence, the importance ascribed to time, place, dress, ceremony, and authentication of a communication to establish its official character. These practices confirm the statement that authority relates to a communication 'in formal organization'."

- it requires the formal assignment of the right to command to certain persons with specific organizational roles in order to use resources to achieve company objectives;
- it requires the obligation of obedience from the passive subject of the relationship;
- it connects roles placed on the same "line of command" in immediately vertical organizational positions; moreover, the authority is *general* in that it covers all the tasks of the subordinate;
- there are usually sanctions and rewards (available to the hierarchical superior) potentially able to induce subordinates to obey.

- If there are only hierarchical relationships in an organization, then there is "unity of command." Conversely, if there are manifestations of "functional authority" (specialist transversal authority that requires the use of influence by organs spread over different control lines from the person who receives the order), then the unity of command principle is ignored and a person can receive orders from several "bosses"; of course, this situation is always regulated by specific formal procedures, to limit conflicts and avoid disharmony.[22]

According to Barnard, formal authority is basically "an authority of position" and is largely independent of the ability of those who occupy leadership positions. In the author's opinion, however, he admits that orders may be of better quality "simply because of the advantage of position." Barnard specifies that, within an organization, there may be influence that comes from people with superior skills and personal qualities, but who are not formally authorized to use their influence. In this case, the author talks about leadership authority and stresses that, "when the authority of leadership is combined with the authority of position, men who have an established connection with an organization generally will grant authority, accepting orders far outside the zone of indifference. The confidence engendered may even make compliance an inducement in itself."[23]

Looking again at the objective aspect, authority, and in particular the hierarchical type, is the backbone of the organizational structure and related communication lines. Following the means-ends chain in all branches of the organization, hierarchical authorities create an uninterrupted control link that connects all organization members as a system. This connection is divided into several control lines (for example, in a company: production, sales, marketing, finance, etc.). Each member placed in a particular point of a specific control line has the right to issue orders to their immediate subordinate and has the obligation to comply with the commands that come from the position immediately above. In this way, authority flows from the top to the base of the organization, permitting structural and functional coordination of the various members, keeping the company system constantly orientated towards its general objectives. Naturally, the teleological behavior of organizations

[22] On this point, see: Davis (1951), chap. X; Koontz and O'Donnell (1959), p. 155 ff.; Mooney and Reiley (1958), p. 50 ff.; Pfiffner and Sherwood (1990), p. 155 ff.; Terry (1955), p. 359 ff.

[23] Barnard (1938), p. 174.

requires not only the creation of a chain of objectives, decisions, and organizational roles, but also the adoption by management of concrete coordination measures carried out through regulatory processes. These processes tend to maintain the value of some company variables within certain desired limits In this way, the organization obtains almost a "homeostatic equilibrium" that allows the business system to achieve stability and order and to adapt to eventual changes in the environment and general and particular objectives.[24]

6.4 The Characteristics of an Effective System of Communication

According to Barnard, the creation of a structured system of lines of authority (which set up, adopting his terminology, the communications system) is "a primary, or essential continuing problem of a formal organization. Every other practical problem of effectiveness or efficiency – that is, of the factors of survival – depends upon it."[25]

An adequate system of communications is the indispensable tool to supply the information that constitutes the raw material of decision-making, execution, and control processes. A good communications system is also—according to Barnard—a fundamental means to develop and maintain a cooperative attitude on the part of organization members over time; if missing or inefficient, good cooperation cannot be created because its main source would not exist or would be lacking and there would be a contradictory and absurd system of inadequate orders.[26]

In the author's opinion, the fundamental characteristics of a valid system of communication are the following:[27]

(a) the channels of communication should be clearly specified and made known to the members of the organization;
(b) every participant should be included in the organizational structure: they should "report" to someone and eventually have roles below them to give orders to and coordinate;[28]

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[24] The processes of development and change of mission or strategy involve, naturally, the reorganization of regulation process parameters.

[25] Barnard (1938), p. 175.

[26] Ibidem, p. 175.

[27] Ibidem, pp. 175 ff.

[28] Barnard (1938), p. 176 (in the notes) observes that, in organizations, it is not unusual that a person reports to and is therefore subordinate to two or three "superiors." In this case, in his view, tasks, powers, and responsibilities should be clearly defined and regulated. In this case, we are in the presence of the so-called functional authority (prescription authorities) which is used together with hierarchical authority and breaks the "unity of command principle." Functional authority requires the assignment of the right to command to certain specialists, to take advantage of their professional skills. It entails the obligation of obedience on the part of the subordinate that receives

(c) communication lines should be as short as possible in order to increase the speed of communication, reduce the possibility of error and distortion of information when it flows through a given control line or in a transversal manner between different control lines affected by a particular business decision.[29] Reduction in the number of organizational levels can be obtained, according to Barnard, also through the establishment of specialist staff units that support managers' decisions and operations with their professional skills;[30]

(d) lines of communication, as a rule, should not miss out any steps of the single lines of authority, so they do not leave any company center without information;

(e) the people who staff the various communication centers (centers of authority) should be competent in various subjects. They should possess: mastery of the technologies used; knowledge of the formal and informal organization and the connection between decisions and company objectives; ability to interpret environmental factors and their evolution; capacity "of discrimination between communications that can possess authority because they are recognizably compatible with all the pertinent conditions and those which will not possess authority because they will not or cannot be accepted".[31] It is difficult for a manager

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the command. Authority passes between roles located in different control lines (i.e., it is a transversal relationship). The relation of functional authority is, moreover, limited to a specific subject (that is, a particular aspect of the subordinate task); it is also limited in time. The holder of functional authority may propose sanctions and rewards but they are managed by the hierarchical head. Functional authority breaks the unity of command. Therefore, it is used carefully to exploit particular competencies in the organization. For example, when in the performance of some of the roles assigned to specific people it is necessary to use information held by certain specialists located in different lines of command and it is necessary to give these specialists formal authority and not just advisory powers, transversal authoritarian organizational relationships are set up, which—as mentioned—are limited in time and by subject. Giving up the influences of functional authority would mean giving up using specialist expertise in company decision-making processes, unless also non-authoritarian transversal functional relationships are not effective, such as advisory functional, service, monitoring, and coordination relationships. This is a problem that must be solved case by case when creating and revising the organizational structure. It should be noted that the violation of the principle of unity of control must be taken into careful consideration in any case. Therefore the introduction of relations of specialist functional authority must be accompanied by the establishment of clear, detailed, and careful regulation of organizational relationships. In other words, the content and the limitations of functional authority must be specified unequivocally and this information must be included in the relevant job descriptions, organigram, and the organizational manual.

[29] Organization members have the natural tendency to distort the information they submit to their superiors (hierarchical and functional) to please them or to make their performance appear better than it actually is. They also tend to filter and modify the information they receive from above and must forward to their hierarchical subordinates or to other roles of the company's organizational structure. This happens, generally, in good faith with the aim to clarify and make orders more acceptable. Sometimes this phenomenon manifests with the deliberate intention to accentuate personal power within the organization: information, means, knowledge and therefore power.

[30] Barnard (1938), p. 176.

[31] Barnard (1938), p. 178.

to deal with complex problems alone; therefore, each communication center of some importance, in the author's opinion, will tend to organize itself and create a unit supported by a staff of specialists. At the highest level, councils, committees, steering groups, etc. will be formed for this purpose;

(f) communication lines should always be kept open during company operation, also in the case of absence of managers of different organization centers. Communication is established between the various centers of authority and roles, and should be independent from those who hold these roles. In any case, good communication should be verified, meaning it should be certified that it comes from a specific organization center and that whoever signs it is authorized to make the communication.

6.5 The Importance of the Distinction Between Subjective and Objective Aspects

In conclusion, Barnard's conception of authority is original and still relevant. The distinction between objective and subjective aspects is clear, precise, and a useful analysis.

On the one hand, there is the *objective aspect,* which is the right to command conferred by the organization to particular individuals who hold certain organizational roles. This right is legitimized by a source that has the legal prerogative. The right to command allows the holder of the position to issue orders and directives that are the premises that should guide the thinking and actions of employees. This right is reinforced by the possibility to use rewards and sanctions. The classical organization theory is inspired by the following paradigm: business objectives are realized by functions; from the functions descend the tasks; from the tasks derive responsibilities; to face these responsibilities it is necessary to assign a *corresponding* degree of authority. The classical theory also believes that increasing formal authority granted to an individual substantially increases his power or his capacity to influence subordinates and regulate their behavior.

Barnard recognizes that the objective aspect of authority exists and that it is very important for the operation of organizations. However, he contests that the power of influence is strongly linked to formally conferred authority. It is therefore not an automatic, sequential process. Formal authority is only a "potential" and not an effective power; it certainly helps the executive to influence the conduct of subordinates; but that influence depends, to a large extent, on "the acceptance of authority" by his employees. Then the subjective aspect of authority emerges, which, in Barnard's opinion, is substantial and is, therefore, to be considered paramount. He emphasizes that the acceptance of authority cannot be created by an organization by a formal act; but it is an attribute, recognition, that the manager has to earn every day working with his employees, and essential to create an effective and efficient cooperative system.

With the above, Barnard begins to criticize the traditional organization theory, which is based on the centralization of decisions, on authority and analytical control of employee behavior, also using control staff. He therefore *seems* to reject the idea that the successful executive is the one who can "make others do certain things" and enforce his decisions, without the possibility of reply.[32] From his work it can also be understood that it is not sufficient that the act of authority is accompanied by explanation, clarification, or encouragement. According to the author, it is necessary to create a balance between contributions and incentives for the various organization members, in order to develop and conserve a real, lasting cooperative system. On this point, Barnard's thought is quite modern, even if some aspects still need to be clarified, especially in terms of the leadership model to be adopted to favor the creation of a true cooperative system and effective participation of employees. This topic will be dealt with in Chaps. 9 and 12 of this work.

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[32] This is because when Barnard talks about leadership, he seems to favor the *socialization model* (adaptation of the objectives of employees to those of the company) to the *fusion/integration model* (in which company goals and those of individuals are integrated mainly by creating organizational roles and company relationships that enable employees to satisfy their motives in carrying out their work tasks, deriving satisfaction intrinsic to work).

Chapter 7
The Role of Executives in Making the Organization's Goals Compatible with Members' Goals. The Search for Equilibrium Between the Organization's Incentives and Members' Contributions

Abstract In this chapter, we focused on the problem of creating and maintaining a sustainable "cooperative system." This led to the problem of making company goals and objectives compatible with those of individuals and of the various groups involved in operational activities. In this chapter we also discuss the solution to this problem through the introduction of a system of incentives provided by the company, and through careful and cautious persuasion aimed to induce people to collaborate and supply satisfactory performance.

7.1 "Socializing" and "Personalizing" Dimensions in Organizations

Collaboration is realized when management is able to create a formal organization capable of bringing together the efforts of people as a system, orienting them towards the impersonal ends of the company, which are normally different from the goals of individual members. The problem therefore arises to make the organization's goals compatible with those of the individuals. Therefore the "socializing dimension" (company objectives) must be balanced with the "personalizing dimension" (the objectives of individuals) and effectiveness (satisfaction of company interests) and efficiency (gratification of individual needs of members), as they are understood by Barnard, must be realized simultaneously.

In an organization, harmony and unity of purpose develop if the decisions and actions of the various members are directed and coordinated towards a general unifying purpose. Organizational activity emphasizes people's specialization, their coordination and, in particular, the finalization of their behavior, while taking due account of their individual motives and objectives.

Organizations are human systems and every person is an entity worthy of careful and specific analysis. The creation and maintenance of a valid cooperative system requires the consent of participants, and formal authority is based on the acceptance of orders by subordinates. Commands, orders, and all authoritarian influences must remain—as Barnard highlights—within a "zone of indifference" which, although

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not precisely defined, is outlined, in the perception of the various members. This limit cannot be overcome if you want to maintain collaboration and effective operation of the cooperative system. It is in this field that the quality of management is manifest. The manager must strive to overcome the trade-off between effectiveness and efficiency. In other words, he must work to offer incentives and adopt leadership strategies that encourage individuals to collaborate continuously to achieve the organization's objectives.

7.2 Brief Summary of Executive Process Deployment

According to Barnard, the executive process consists of the following functions[1]:

– formulation and definition of the general purposes and objectives of the organization (at strategic, tactical, and operational levels). This is the decision-making process of *planning* which forms the basis of the company system, laying out the company management guidelines and objectives. The decision-making process involves the exercise of the *control* function, which regulates the operation of the business system at all levels. This is done by means of a conscious system of corrective actions that may impact on organization and productivity levels; often corrective action involves reprogramming of operations in relation to changes in the external environment and inside the company[2];
– creation of an adequate organizational structure that delineates clear, specialized and coordinated roles and establishes an information and communication system that adequately supplies the decision-making, control, coordination, and execution processes;
– acquisition and maintenance of the services provided by members through the development of a valid cooperative system which achieves, over time, a sustainable balance between incentives provided by the organization and contributions offered by members. In this third function it seems to us that Barnard also inserts the function of leadership, which appears to be "of a higher order" than the processes of decision-making, control, organization, and the creation of a durable cooperative system, since it shapes them in the sense that their structure and contents are conditioned by the type of *leadership* style adopted by executives. Further details on planning, control, and organization may be found in Chap. 5, where these functions were analyzed.

[1] See in particular Chap. 4 of the present work.

[2] The reprogramming is often accompanied by inserting new energy in the organization: this is obtained introducing new human resources with specialist skills and oriented to creativity and innovation. The use of these energies may take place acquiring them externally or creating them internally for auto-poiesis. In both cases, the activity of top management is decisive in the choice of incentives to be offered to attract new resources and to stimulate them to cooperate in the interests of the organization.

In this chapter, we focus on the creation and maintenance of a cooperative system and on leadership. The theme of leadership will be discussed further in Chap. 9.

Since the creation of a cooperative system and the use of leadership are highly complementary functions, in this chapter we will consider the two functions together as an integrated whole: this whole is the most delicate task of the executive. It is also the most complex because in addition to being oriented to the achievement of effectiveness (general and impersonal purposes of the organization) it must be compatible with efficiency (the satisfaction of the individual interests of members). All of this is in order to keep alive and strengthen cooperation, which is essential for the survival and development of the company. "The subject of incentives is fundamental in formal organizations and in conscious efforts to organize. Inadequate incentives mean dissolution, or changes of organization purpose, or failure of cooperation. Hence, in all sorts of organization the affording of adequate incentives becomes the most definitely emphasized task in their existence. It is probably in this aspect of executive work, that failure is most pronounced, though the causes may be due either to inadequate understanding or to the breakdown of the effectiveness of organization."[3]

7.3 The Creation and Maintenance of a Cooperative System and the Function of Leadership that Inspires This Process

Barnard states, observing the operational reality that he knew well, that the proper operation of organizations is essentially linked to the will of people to contribute to the cooperative system.[4] However, the will is closely linked to the organization's ability to provide incentives that can gratify individual motivations. It is therefore necessary to stimulate people to cooperate. It is difficult for cooperation to develop spontaneously. Barnard points out that organizations can only exist if they are consistent with the individual motivations of participants, unless, alternatively, they can change these motives. The individual is always the organization's fundamental strategic factor. "Regardless of his history or his obligations he must be induced to cooperate, or there can be no cooperation."[5]

On this point, Barnard can be seen to be partly influenced by Taylorist management theories, which, after recourse to tangible and intangible incentives, adopt variously organized persuasion strategies that "compel" participants to respond to the "superior requests" of the organization. The topic will be returned to in Chaps. 9 and 12 in which, on the one hand, we will highlight the extremely modern elements of Barnard's management theory and, on the other, we will underline the presence

[3] Barnard (1938), p. 139.

[4] Barnard (1938), p. 139.

[5] Ibidem, p. 139.

of some "concepts" associated with the traditional management models dominating the managerial context in which the author worked.

Barnard highlights how the "net satisfactions" that stimulate an individual to work with a particular organization are the result of a comparison of the advantages and disadvantages of his collaboration. However, according to the author,[6] "only occasionally as to most persons and perhaps as to all persons is the determination of satisfactions and dissatisfactions a matter of logical thought." In other words, in Barnard's view, the calculation of "net satisfaction" to evaluate the convenience to participate cannot be performed, in practice, using a "utility function" represented by a rigorous and objective mathematical equation, which takes into account all the human and environmental variables. The decision to participate is not a perfectly rational choice, as the person who performs it is not able to identify and consider all the variables involved in the calculation. He is also unable to develop all possible alternatives of behavior actually present in the "map of the objective reality" (largely unknown to him), nor is he able to assess all the consequences associated with each alternative, or to choose the best alternative according to a well-defined "utility function."

According to Barnard, the choice to participate is performed according to a "limited rationality" model; this rationality can be improved with experience, but you can never reach levels of "objective rationality." On this point, Barnard is extremely modern; he anticipates by many years the theories of Simon[7] on the limited rationality model that is typical of the "organization man." Barnard's man (whether an employee or other *stakeholder* participating in the cooperative system) is a limited rationality being. This fact has important implications for the manager looking for the solution to the equation that requires, on the one hand, the willingness of people to collaborate and, on the other, that the company can offer a range of objective incentives, together with the possible persuasion strategies—when the incentives are lacking—to induce people to cooperate.[8]

7.4 The Elements That Form the Basis of a Cooperative System: The will to Collaborate, the Incentives to be Provided to Organization Members and the Strategy of Persuasion

There are three elements of the equation: *desire to collaborate*, *objective incentives* to be supplied to gratify the motivations of participants, and *persuasion strategies* to eventually change attitudes and motivations of participants.[9]

[6] Ibidem, p. 140.

[7] Simon (1952, 1958).

[8] Persuasion aims to change the state of mind, attitudes, and especially the motives of people. All this is to ensure that the available incentives are adequate for the needs of management.

[9] "Certain common positive incentives, such as material goods and in some senses money, clearly have an objective existence; and this is true also for negative incentives like working hours,

Of course, executives can directly affect the second or the third item, but, only indirectly, the first.

A company can use two main methods to ensure participants' contributions; these are named by Barnard:

(a) *the method of objective incentives*, material and immaterial, available to the organization;
(b) *the method of persuasion*, aimed at changing the attitudes and motivations of members, so that the incentives available are adequate to induce behaviors responsive to the interests of the overall organization.

The author states, "It is improbable that any organization can exist as a practical matter which does not employ both methods in combination. In some organizations the emphasis is on the offering of objective incentives – this is true of most industrial organizations. In others the preponderance is on the state of mind – this is true of most patriotic and religious organizations."[10] However, in practice, the author reiterates, in all types of organization, the two types of methodology are used simultaneously.

7.5 Objective Incentives

Barnard distinguishes two classes of objective incentives:

1. specific inducements directly offered to individuals;
2. general inducements that cannot be specifically offered.

7.5.1 Specific Inducements

The specific objective incentives include:

(a) *material inducements*. These can be money, objects, and physical conditions, offered to the individual as recompense for the contribution that is asked of him. In a monetary economy characterized by mass production, the role of money is generally considered significant. However, according to Barnard, while money and consumer goods are highly effective to meet people's primary needs (physiological

conditions of work. Given a man of a certain state of mind, of certain attitudes, or governed by certain motives, he can be induced to contribute to an organization by given combinations of these objective incentives, positive or negative. It often is the case, however, that the organization of mind, or to those attitudes, or to one governed by those motives. The only alternative then available is to change the state of mind, or attitudes, or motives, so that the available objective incentives can become effective." Barnard (1938), p. 141.

[10] Barnard (1938), p. 141.

and safety), they appear less adequate to incentivize personal contributions when the needs in tension are social, self-esteem, esteem by others, etc.

On this subject, Barnard anticipates the theories of Maslow[11] and McGregor[12]: a reasonably satisfied need no longer motivates; it is pushed to the bottom of the personality; it resurfaces only if the means that gratify it become scarce. It follows that if management, using material incentives consisting of money and consumer goods, is able to meet physiological and safety needs adequately, but not those of a higher order, it will not be able to increase employee productivity, and their desire to collaborate, for the simple reason that these employees have no incentive to do so. Obviously, to increase performance and the level of real participation, management will have to make use of other forms of incentives.[13] However, Barnard does not accompany this very modern intuition with equally modern measures; he favors solutions in line with the theories on management styles that characterized his era and with the practices then followed. Although he states that, in his view, when the minimum needs (physiological and safety) are met, the sole force of material incentives is, for most men, extremely weak.[14] He also takes into account a complex system of intangible incentives (specific and general) and recognizes that the great importance attributed to material rewards was a consequence of the development of technology and mass production, which made it easy to have plenty of material incentives. However, his underlying philosophy seeks the strengthening of the method of tangible and intangible incentives by the systematic use of *persuasion*.[15] Persuasion, in his view, includes coercion, the rationalization of opportunities provided by the company and the "inculcation" of new motives in line with the organization's needs.[16] Basically, the author's thinking reflects the management theory and

[11] Maslow (1943, 1954).

[12] McGregor (1960, 1966).

[13] McGregor observes (1966), pp. 12–13: "The man whose needs for safety, association, independence, or status are thwarted is sick just as surely as is he who has rickets. And his sickness will have behavioral consequences. We will be mistaken if we attribute his resultant passivity, his hostility, his refusal to accept responsibility to his inherent "human nature". These forms of behavior are symptoms of illness—of deprivation of his social and egoistic needs. The man whose lower-level needs are satisfied is not motivated to satisfy those needs as longer. For practical purposes, they exist no longer…Management often ask, "Why aren't people more productive? We pay good wages, provide good working conditions, have excellent fringe benefits and steady employment. Yet people do not seem to be willing to put forth more than minimum effort". The fact that management has provided for these physiological and safety needs has shifted the motivational emphasis to the social and perhaps to the egoistic needs. Unless there are opportunities *at work* to satisfy these higher-level needs, people will be deprived; and their behavior will reflect this deprivation. Under such conditions, if management continues to focus its attention on physiological needs, its efforts are bound to be ineffective."

[14] Cfr. Barnard (1938), p. 143.

[15] Ibidem, pp. 143–144.

[16] The author states on p. 144 that military, political, and religious organizations are characterized by poor use of *material incentives* and therefore collaboration is mainly developed with immaterial incentives and especially by persuasion in its various forms.

practice of his time and his investigation—especially regarding companies—does not focus on the possibility to satisfy the higher needs (competence, knowledge, independence, respect of others, self-realization) through the provision of "rewards intrinsic to work." These are achievable only with a significant change in management style based on the restructuring of company roles, decentralization, self-direction, and self-control, without making systematic use of the tools of persuasion. The management philosophy of Barnard, ultimately, seems anchored to the "socialization process."

(b) *non-materialistic inducements.* These are personal opportunities of distinction, prestige, and personal power, related to the position/organizational role offered by the company. The distinction is associated with the hierarchy and rewards related to the organizational position; such rewards are indicators of social status, personal development, etc. According to Barnard, intangible incentives are much more important than material rewards in the development of all organizations.[17] These incentives, in the author's thought, are inherent to the position that people have within the organizational framework, but they are not rewards "intrinsic to work." Therefore, in our view, they are "hygiene factors" and not "motivating factors," using the terminology of Herzberg, Mausner, and Snyderman.[18] According to their experimental research, there are two categories of factors that have different impacts on employee behavior. The first category consists of *"motivating factors"* (success, recognition of success, work itself, responsibility, advancement) which have the effect of developing satisfaction, promoting commitment and, consequently, increasing the productivity of organization members. The second category is *"hygiene factors"* (company strategies and policies, management supervision, remuneration, interpersonal relations, working conditions and environment, etc.); these factors do not stimulate people to become more involved in the performance of their allotted roles, but when deficient, they have a negative effect on satisfaction and performance. Therefore, if management tends only to strengthen hygiene factors, it fails to positively affect productivity and only manages to prevent dissatisfaction and reduction of performance. Motivating factors are linked to the characteristics of the roles performed, to the intrinsic rewards to work; conversely, as a rule, hygiene factors (to prevent negative attitudes towards work) are extrinsic to tasks and relate mainly to the organizational environment.

(c) *desirable physical conditions of work.* For Barnard these are important stimuli for cooperation. In our view, they are kinds of hygiene factors that should not be overlooked if you want to avoid negative attitudes towards work and performance reduction. When their level is reasonably adequate, their reinforcement therefore has no significant positive effects in terms of productivity.

(d) *ideal benefactions.* For the author these are the most powerful objective incentives, but the most neglected. They consist in the possibility offered by the company to organization members "to satisfy personal ideas usually relating to

[17] Ibidem, p. 145.

[18] Herzberg et al. (1959), Herzberg (1966, 1968, 2009).

> non-material, future, or altruistic relations. The benefactions include pride of workmanship, sense of adequacy, altruistic service for family or others, loyalty to organization in patriotism, etc., aesthetic and religious feeling."[19]

Looking at the motivations of self-esteem (knowledge, competence, adequacy) and self-realization (service to third parties, organizational loyalty, etc.), it is very difficult to tell conclusively whether for Barnard the role of management is to restructure the organization and existing programs of management and control, in order to allow employees to realize motivational satisfaction while performing their working roles. It is equally difficult to discover whether the author intends, conversely, to satisfy these motivations with the organizational structure and the existing management and control programs, focusing essentially on tangible and intangible incentives and persuasion. In other words, it is unclear whether Barnard tended towards a management process able to adapt company and individual objectives reciprocally (fusion process) or towards a "socialization process" in which personal objectives and motivations are adapted to the organizational structures, to existing programs and available incentives. The analysis of the overall work of Barnard and his insistence on persuasion, especially on the "inculcation of new motives" (changing the motivations of participants), lead us to believe that he tended towards a socialization process based on persuasion. We will return to this point in Chap. 12.

7.5.2 General Inducements

The incentives previously considered are the specific objective incentives, explicitly offered to individuals by the company as a stimulus to cooperation. We will now analyze general objective incentives, namely the indirect incentives that cannot be offered singly.

Among these, Barnard mentions the following:

(a) *creation of an "attractive associative system"*

Social incompatibility, as perceived by individuals, evidently generates problems of coordination, collaboration, and communication. "Differences not merely of race, nation, religion, but of customs, morals, social status, education, ambition, are frequently important."[20] Consequently, it is necessary to create favorable conditions of association, affecting, in particular, the process of making compatible the views of individuals. It is a cultural problem, which—according to the author—tends to take on great importance with the globalization process and requires a long time, determination, and patience for its solution. Barnard, in the 1930s, was right. Today

[19] Barnard (1938), p. 146.

[20] Barnard (1938), p. 147.

the problem is of major importance and will be, without doubt, a major concern for executives who manage complex and globalized companies.

(b) *adaptation of working conditions and methods to the normal situation*

This is not the rejection of innovation and creativity but the average organization man's tendency not to cooperate promptly with new members of the organization who use special methods of work and who have attitudes out of the norm. This is a problem that must be solved with training and development of staff.

This incentive, in our opinion, should consist in creating the conditions that develop acceptance of structural, technological, and operational innovations by the various members. The terminology used by Barnard on this point leaves room for ambiguity, but we believe that the intention of the author is to create conditions to overcome the general tendency towards "organizational inertia" and resistance to change that form work phenomena that adversely affect the willingness to cooperate.

Every organization is an open system in a larger environment and is influenced by cultural models that are created externally. However, organizations are qualified by a specific culture: (a) specific system of capacities, habits, behavior patterns, beliefs, and values that are perceived as correct and convenient, and therefore serve as guidelines and operate as control and regulation instruments.

An organization's culture therefore generates significant influence on the conduct of members of the social body.[21] This influence can be overt and covert and its intensity increases gradually as the number of relationships between the elements of the company system grow and increase the opportunities for integration and interaction. Indeed, the more effective the "structuring forces" of an organization become, the more the behavior of the single elements of the system is governed by organizational factors, rather than by the characteristics of the individual elements. In other words, the conduct of a person depends mainly on his past and his individual qualities, when the social system to which he belongs is tolerant and inadequately organized and the person in question has a broad culture and a high degree of creativity (simple social structure, complex individual structure). Conversely, when a little-established individual is inserted in a strongly hierarchical social organization, in which the relationships are complex (tradition, adaptation to culture, conformism, community of interests) and in which the ideological, religious, and cultural pressure background is homogeneous and effective, his behavior will depend more on his role and his social status than on his preferences and personal characteristics.[22]

As above, any innovative provision of management must be applied in the reality of the company and its culture and therefore has to deal with habits, opinions, behavior patterns, and established operating procedures that produce resistance to change. The problem is particularly relevant in companies characterized by

[21] Piffner and Sherwood (1990), p. 270, write that alternatives of behavior allowed to an individual will be strictly conditioned by the institutional nature of the organization. These restrictions apply to all levels: also, the flexibility and discretion of managers thus suffer limitations.

[22] Lussato (1992), pp. 99–100.

considerable dynamism of markets, technologies, and the conduct of institutional organizations.

Management needs to adapt its dynamism to the scale of the environment and therefore must be able both to develop appropriate innovation to face the forces of competition and to obtain organizational flexibility by reducing the resistance to change that is normally present in all organizations.[23]

With regard to resistance to change, it should be noted that the company system, considered at a given time, is the result of decisions and actions that occurred in the past. This applies to the material structures and the immaterial (including culture). Specifically, concerning human resources, it should be noted that their attitudes, their expectations, and their value concepts were formed at an earlier time; they therefore tend to apply lessons from the past to the present. Indeed, every company considers what happened in the past as normal, and has a strong inclination to reject as abnormal anything that does not fit the old model.[24]

The phenomenon of resistance to change can be classified into two categories based on different assumptions.

On the one hand, there is natural physiological resistance arising from the complexity of the work done by people and their capacity to learn new patterns of behavior that go beyond the existing situation. The average organization man, evidently, needs time to understand, put in practice, and master new knowledge and new ways of working. Often, the process is long, difficult, and full of sacrifices, with alternating disappointment and personal satisfaction. In any case, the time required to "implement" innovations varies according to people's characteristics, the strength of the company culture, the complexity of the work, management styles adopted and, in particular, the quality of the training and development processes of human resources.

On the other hand, resistance to change manifests when, in the individuals involved in the innovation process, the need for security (which is a basic priority motivation) develops with respect to the continuity of their work, professional development, career progression, the maintenance of prestigious roles acquired in the organizational hierarchy, etc. More precisely, the security motivation emerges (and provokes attitudes of rejection, hostility, not sharing introduced changes), when individuals perceive the probable danger of not receiving "fair" treatment by hierarchical superiors or other groups of bearers of special interests, and more generally, of being able to suffer arbitrary and discriminatory measures.[25]

In general, the level of resistance to change is a function of the degree of confidence of people towards superiors and other persons or groups with competing interests.

[23] The manager has long been considered as an "agent of change" who develops and introduces innovation and "manages the change" minimizing resistance to it. Moore (1956).

[24] Drucker (1973), pp. 31–32.

[25] Cfr. McGregor (1966), p. 9; (1960), chap. 10.

For an individual, the degree of confidence is closely related to the following factors:

1. his ability to perceive and reasonably estimate the effect of innovative programs (and thus of the decisions taken by superiors and other company groups) on personal life (economic, social, and professional)[26];
2. his opportunity to have been able to experience the same or similar changes, in the past, and their impact on his personal situation;
3. formal and informal influences on him by the "small group" with which he works daily, by the union, etc.;
4. the quality of the existing company management model and, in particular, the managers' ability to deal with change while maintaining resistance at a tolerable level.

In order to develop collaboration and reduce resistance, management tends to operate appropriately on these four phenomena. The fourth element, management style, is particularly important. It determines, to a large extent, the level of mutual trust between members of the organization and the "company climate"[27] understood as the quality of relationships created in the social group of the company.[28] The management style can also mitigate the negative aspects eventually exercised on trust from the first three elements;

(c) *development of opportunities for extensive participation*

Barnard regards this element as a general, non-specific incentive and, therefore, not to be assigned directly to the individual. It is, more particularly, the development of the "feeling of extended participation" in the course of events. "It is sometimes, though not necessarily, related to love of personal distinction and prestige. Its realization is the feeling of importance of result of effort because of the importance of the cooperative effort as a whole."[29] The incentive in question therefore does not regard participation in the decision-making processes to identify company problems, to define them, to develop alternative solutions, to seek the consequences

[26] If a person, for various reasons, does not know sufficiently the environment in which he operates, nor has the skills to adequately assess the scope and the effects on his personal sphere of the innovations that are being introduced, he is very likely to be gripped by anxiety and fear. Then he tends to perceive the surrounding environment as a source of risk. In such a situation, he may also become easy prey to internal groups that join forces to challenge the management's strategies.

[27] McGregor (1960), chap. 10.

[28] Interpersonal relationships are considered by Likert as "intervening variables" that express the health and the vital spirit of the organization and affect "resultant variables" (the company's results: revenues, costs, profits, returns, etc.). According to the author, intervening variables are substantially influenced and shaped by the management model adopted in the company, which is later defined as a "causal variable". Cfr. Likert (1971), p. 98 ff.; ID. (1961).

[29] Barnard (1938), pp. 147–148. The author adds, "Thus, *other things being equal*, many men prefer associations with large organizations, organizations which they regard as effective, as against those they consider small, useless, ineffective."

associated with the various alternatives, and to choose the most satisfying alternative. It is, however, the feeling of being part of a larger project, which gives prestige and visibility to the organization and indirectly to the members who compose it. Consequently, it is not a motivational reward "intrinsic to work," but a feeling that still has value in terms of "recognition of success" linked to membership of a solid and important organization;

(d) *development of "condition of communion"*

Barnard alludes, in this case, to the creation of social relations that generate a feeling "that is sometimes called solidarity, social integration, the gregarious instinct, or social security…It is the opportunity for comradeship, for mutual support in personal attitudes."[30] This feeling is—according to the author—a prerequisite for the creation and maintenance of formal and informal organizations.[31]

It is clear that the quality and value of an organization are closely linked to the quality of management that governs it. Companies identical in size, technology, products portfolio, and operating sector can achieve different economic-financial results over time if the management model adopted is different.

Management models, according to Likert,[32] represent the main strategic resource of the company and determine its success or failure. According to the author, most of the executives of his time (but in our opinion this is still fully valid today) inspire their conduct by conventional theories based essentially on authority, on external control of employee behavior, on extrinsic incentives to work, and persuasion. The management models based on these assumptions are no longer valid because the conditions in which operational activity is carried out have changed. Modern management systems are centered—according to Likert—on decision-making decentralization, on self-control, on rewards intrinsic to tasks/organizational roles, on the use and recognition of the professional skills of employees at work.

Likert, describing his management model called "System 4" (which should simultaneously realize high productivity rates and high levels of satisfaction of organization members), underlines that this model is based on three elements[33]:

– principle of "supportive relationships";
– development of an organizational system based on a participatory process of management;
– determination of high performance objectives to be assigned to the various organizational positions.

The first point is important in order to better interpret the thought of Barnard on the "development of community conditions." In presenting the principle of supportive relationships, Likert points out that effective and efficient management models

[30] Barnard (1938), p. 148.
[31] Ibidem, pp. 148–149.
[32] Likert (1971), p. 3 ff.
[33] Ibidem, p. 54 ff.

should be able to guarantee, with a high level of probability, that in all interactions and in all relationships within the organization, each member, in the light of their background, their own values, and their own expectations, considers the experience supportive and therefore taking into account and preserving his values and sense of personal importance.[34] The principle in question, when it is correctly applied by managers, develops collaboration and unity of purpose in the realization of company objectives. However, the "development of communion conditions" and the "creation of an attractive association system," which are indicated by Barnard as general fundamental incentives that stimulate collaboration, are, in our opinion, perfectly in line with the principle of supported relationships of Likert. This, again, shows unequivocally the modernity of Barnard's thought and his significant contribution to the study of management.

7.5.3 The Need to Use Persuasion

In the preceding pages, the specific and general incentives available to organizations were analyzed. According to Barnard, in practice, a combination of these incentives is used, which can vary over time in relation to the internal and external environment. The author also stresses that companies, most probably, are not able "to offer *all* the incentives that move man to cooperative effort, and are usually unable to offer adequate incentives."[35] Hence, according to the author, the need for persuasion by which to make the available or potential incentives adequate.[36]

7.6 The Method of Persuasion

Barnard says that persuasion includes:

(a) the use of coercion;
(b) the rationalization of opportunities available;
(c) the inculcation of motives.

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[34] Ibidem, pp. 54–55.

[35] Barnard (1938), p. 149.

[36] Ibidem, p. 137. It seems that the author is not interested in creating and testing other types of incentive, but wants to use existing incentive instruments, convincing people through coercion, indoctrination, and by creating new motivations. The author, however, excludes the systematic use of coercion exercised through authority. At most, he considers the use of authority in exceptional cases, in situations where it is necessary to preserve the integrity of the company system. Rationalization and "the inculcation of motives" seem, however, usual and complementary strategies related to the particular and general system of incentives.

7.6.1 The Creation of Coercive Conditions

According to Barnard, this is a method to exclude inadequate resources in the pursuit of business objectives from the organization. However, it is also often used—according to the author—with an exemplary value: to threaten and sanction those who make mistakes, inducing employees to respond correctly to the requirements of organizational roles. Nevertheless, Barnard states that "no superior permanent and very complex system of cooperation can be supported to a great extent merely by coercion."[37]

We fully share Barnard's view: coercion does not lead to positive results in the long term. This warning was not (and is still not) accepted by many managers who have been and are still inspired by the traditional Taylor type of management. In particular, they operate from negative assumptions about the behavior of employees at work: the average organization man does not love his work, he has the innate tendency to pretend to work, he is insensitive to the needs of the company, he does not love change and avoids responsibility. Traditional management also strongly believes that ingenuity, imagination, and creativity are not common characteristics; therefore, the average man in the organization is not very intelligent or creative. These are the main assumptions of managers of the "Theory X" school. The managers who share these assumptions consider it essential to centralize decisions and, consequently, to program and control the work of employees analytically. They are convinced that by attenuating authority and control, productivity would be very low. It is therefore essential, in their view, to impose certain behaviors and "make human nature docile," forcing it, ultimately, to respond correctly to the requirements of organizational roles. Because employees do not love their work, have the natural tendency not to collaborate in the realization of the organization's purpose, and do not respond spontaneously to the requirements of company roles, management is obliged to employ a personnel management strategy based on strength, authority, and analytical control of their work. These management styles (with harsh and paternalistic versions) do not work, at least in the long run; in any case, they do not permit the simultaneous satisfaction of individual needs and company interests.[38]

The managerial philosophy based on authority and control, according to McGregor, tends to "drive" the conduct of employees through a wide range of management policies defined at the extremes by two distinct management styles.

On the one hand, there is a harsh authoritarian model, which involves the centralization of authority, the permanent exercise of control, and the systematic use of threats and sanctions. Those who are not docile in relation to commands received are induced to comply; to that end, monetary sanctions, threats of dismissal and slowdown in career progression, and expulsion from the organization are used.

At the other extreme, management based on the "Theory X" philosophy provides a soft authoritarian model (authoritarian, paternalistic style). Even in this case, the decision-making process is centralized; the programs of subordinates' behavior are

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[37] Ibidem, p. 150.

[38] Cfr. McGregor (1966), pp. 6–8, pp. 30–45 and 184 ff.

largely governed by rules and procedures that leave little space to the discretion of employees and the possibility to apply their professional skills, creativity and imagination in their work. However, compared to the hard model the incentive system changes: threats and punishments are replaced mainly by monetary rewards, and various concessions on working conditions and productivity control. This approach, in essence, is based on the assumption that if you are good, open, and available to employees, through loyalty and gratitude they will make their conduct conform to management orders and directives.

The tough style may work in socio-economic environments in which the prevalent needs of employees are of a physiological and safety nature. However, when these motivations are reasonably satisfied, social needs, self-esteem, esteem of others, and self-realization emerge. Therefore, if management really wants to gratify these motives of a higher order they cannot employ tough strategies based on the centralization of authority, analytical controls, and punishment. If a hard model continues to be used, productivity may also increase in the short term but in the medium to long term there is a drastic decline and organization success is seriously compromised. This is because "organizational health" is undermined: employee frustration increases, interpersonal relationships are difficult, the rate of absenteeism increases, union relations become more difficult, employees tend to become increasingly passive, and hostile to change, they refuse to take responsibility and finally organize to counter company strategies and evade controls. All this weighs heavily on "outcome variables" (incomes, revenues, costs, performances, etc.) resulting in an inevitable reduction in the "economic value" of the organization.

Even the soft style does not work in the long term. This is because, despite the efforts of management to maximize worker satisfaction especially using some material incentives, productivity does not increase. On the contrary, it decreases drastically because employees are not committed in carrying out their roles, demanding more, and offering less collaboration. This also happens because if the received rewards are not closely linked to the completion of tasks and to the level of productivity achieved in their work, people have no interest in providing the company with energy, commitment, imagination, and creativity.

From the above it is clear that management models of the traditional type based on authority strongly rely on coercion and the need to "make docile" employees' conduct. Their lack of success, in the long term, inevitably clashes—as Barnard teaches—with the reaction of personnel, with the acceptability of orders and directives received.

Despite the above, it should be noted that authority appears indispensable for the creation of an organizational structure; it is the backbone of the organizational body. It contributes—according to Simon—to the finalization, harmonization, and coordination of the elements of the company system, as it allows decisions and higher-order objectives to act as a guide to direct decisions and lower-order objectives. However, the capable manager will not give in to the temptation to resort to authority continuously and systematically. He will use it—as seen earlier—in exceptional situations: (1) to reorganize or dissolve the group he manages; (2) to resolve serious disagreements within the group: when a difficult problem arises and cannot be resolved through discussion or persuasion, he will resort to the chain of command to take a conclusive decision; (3) in emergency situations where it is clearly essential to decide and act quickly and firmly.

7.6.2 The Rationalization of Opportunity

This is a system of propaganda activity planned and implemented by commercial, industrial, political, and religious organizations, aiming *to enhance the incentives available in the company* improving their motivating perception by the various members. The rationalization process can be carried out with two approaches: *general* (in the sense that it is aimed at all) and *specific/personal* (aimed at specific persons or groups).

In the first case (especially regarding political and religious organizations), the opportunity offered by the organization to satisfy people's motives is enhanced. This is effected both as a result of an appropriate philosophical approach and through a media apparatus designed to explain and emphasize some institutional purposes and to "direct" the will of participants, creating unity of intent and the conviction of pursuing the common good.

In the second case, namely the specific type of rationalization, a "proselytizing process" is activated, aimed at individuals, by which the superior opportunities offered by the company to those who join and those who continue to work with the organization are highlighted. It is not therefore a unique general appeal addressed to an "indistinct mass" of participants but a marketing approach to potential and current employees and other *stakeholders*. This approach tends to create a strong and lasting relationship with individuals or small groups, after studying their culture, aspirations, and behaviors. It is not, therefore, mass stimulus, but systemic policies to know counterparts better, to link them lastingly to the company and its business and to "make them faithful" with a view to developing mutually advantageous and long-lasting relationships.

In our view, the specific type of rationalization, when founded on the study of the aspirations, capacities, and real motives of counterparties and, especially, when it is *sincere* (that is, not serving a policy of manipulation) can be a valid tool that increases collaboration in the company and that allows management to harmonize company and individual interests. Unfortunately, very often, rationalization has intentions that differ from those illustrated above. In these cases, it is a sophisticated and subliminal marketing instrument that projects the counterpart in an unreal cultural world, in a system of opportunities that are not objectively of mutual convenience.

7.6.3 The Inculcation of Motives

According to Barnard, this is the most effective method of persuasion. In this case, through a conscious process of education and propaganda, it tends to change the motivations that guide the behavior of participants *to make them compatible with* *the incentives available to the company*. It is, in essence, a deliberate "socialization process" through which the compatibility between the company and individual objectives occurs with the progressive adaptation of the latter to the former; that is to say in a very different way from the "fusion model." In other words, compatibility is achieved by inducing members to internalize values and attitudes in line with the interests of the organization and eliminating behaviors that do not respond to the requirements of company roles. Management, therefore, does not endeavor to redesign the organizational structure and planning and control processes to favor group decisions, decentralization of decision-making processes, self-control, and the application in work of all the potential of energy, imagination, innovation, and dedication of the various organization participants. On the contrary, management tends, especially, to study the personality of individuals to inculcate the motives that "make docile and malleable human nature." In particular, management enhances training and education, not so much to develop the professionalism of individuals, but above all to create "homologous personalities" (structurally and functionally) to the organization's characteristics. Behaviors of docility and collaboration are also encouraged by example, imitation, emulation, and respect for management practices.[39] Especially for non-management roles, using the inculcation method, it is possible to form personalities who internalize "fixed-response" behavior programs, people who are molded to respond promptly and correctly without any deviation to orders and directives. If this happens, the organization is also able to reduce control activities and to resort less to blatant manifestations of authority to enforce certain conduct and achieve planned results.[40]

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At the conclusion of the examination of the persuasion process and the methodologies adopted in organizations to achieve it, it should be said that it is a very delicate system of influences, which has an impact on the personality, conduct, and quality of life of company members. It is certainly not a new phenomenon, even if in the current era it has become particularly relevant because of the tools provided by psychology, sociology, and informatics.

The first manifestations of the art of persuasion are found between the sixth and fifth centuries BC with the start of "the humanistic age of philosophy," during which philosophical speculation begins to focus on man, society, and politics. The sophists, and, in particular, Protagoras 485–415 BC) and Gorgias (485–380 BC), Sicilian philosopher and disciple of Empedocles) emphasized "Paideia" (*education through culture*, culture intended as the continuous training of man) and "Rhetoric" (a tool systematically adopted by the sophists to persuade their listeners and consequently

[39] Cfr. Barnard (1938), p. 152.

[40] Simon (1958), chap. 8, points out that the training and indoctrination of people are part of the socialization process to shape the personal qualities of individuals to adapt them to company needs. According to the author, the function of the socialization process becomes more evident if this process is regarded from the decision-making point of view, that is, if it is considered as a tool with which the decisional assumptions can be communicated and inculcated to the various members of the organization in hierarchically subordinate positions.

impose their point of view). Protagoras starts from the assumption that man is basically a continuous flow of perceptions and the measure of all things. Sense perception is different from person to person and therefore there are as many truths as there are men. He develops a coherent theory of "cultural relativism," recognizing identical dignity to the values that underlie the various civilizations. For Protagoras, in essence, everything is true because everything is opinion. Given the equivalence of values, taking into account that the true, the good, and the beautiful are subject to change, Protagoras outlines a "theory of utilitarianism" in ethics. He believes, in fact, that wisdom consists, above all, in the ability to make men fit to live in society. Rhetoric, in this context, plays a significant role in relation to the need to give precedence to one's own point of view.

Gorgias starts from different assumptions: everything is false and therefore being does not exist; if it existed, it would not be knowable and therefore it would not be communicable. In a world where everything is opinion, rhetoric appears as a tool to produce persuasion; indeed, it is the most effective and discreet way to convince other people and induce them to accept what is being affirmed. In his view, "the word is a great dominator that… knows how to achieve more than divine things."

From the time of the sophists, the method of persuasion has made considerable progress; it has become a profession founded on a scientific basis and is therefore able to have a significant impact on human relations. Consequently, a philosophical problem of cohabitation is born: to avoid prevarication and arrogance towards the weakest from the cultural, information, economic, and social points of view.

7.7 The Economy of Incentives According to Barnard

The search for a stable balance between incentives and persuasion to be used, on the one hand, and the level of cooperation to be obtained from organization members, on the other, is a difficult problem to solve that involves, notably, the management of all *for-profit* and *non-profit* companies.

In the resolution of this problem, an underlying economic theme must be taken into account: the tangible and intangible incentives used and the persuasive activities carried out require the use of economic resources and therefore imply costs. Consequently, in the long run, if the flow of company earnings connected with the operating contributions of participants is not sufficient to cover these costs, the economic equilibrium is broken. In other words, the organization will not be able to procure the means necessary to acquire the group of incentives to be used to obtain the cooperation of the various members in a way suited to operational needs. According to Barnard, this problem constitutes "the economics of incentives."

On closer inspection, the economy of incentives has two main themes:

(a) the development of a theory that explains the choice of incentives and methods of persuasion through the use of available means which are linked to revenues;

(b) the need to realize a long-term balance between the flows of revenues and flows of costs related both to "incentives" to offer organization members and the activity of persuasion towards them.

On the first point, Barnard notes that, despite the constraint of revenues, the choice is extremely difficult, because the material and immaterial incentives and the various methods of persuasion are often in conflict and compete with each other.[41] It is therefore complicated to measure the "productivity" of individual investments in terms of the "volume" of cooperation to be obtained. It is also very complex to forecast prices to be paid for the use of the individual incentives and persuasion instruments.

The ideal solution would be to develop and maintain, over time, a system of incentives and acts of persuasion in which the *weighted marginal productivity* of individual investments is equal. Of course, this calculation assumes that a productivity curve can be created and that the prices of individual factors can be forecast. The best solution requires the development of all the possible solutions, the identification of the consequences associated with each alternative, and the choice of the most convenient alternative based on well-defined selection criteria.

Unfortunately, the organization man operates according to the "limited rationality model" and, considering his lack of knowledge and his limited power of calculation, he must be content with only "satisfactory solutions." This is because he is able to develop few alternative solutions and is able to identify only the main consequences associated with developed alternatives. The final choice is also made based on a "utility function" that cannot be expressed solely in quantitative economic terms, because in real choices even psychological, sociological, human, and situational components come into play, that are difficult to evaluate and organize in a perfectly rational system. Experience, however, permits management to improve the level of rationality of its choices, never reaching, of course, the level of rationality of "economic man," on which models of "objective rationality" are based.[42]

Barnard is well aware of this fact and, after emphasizing the very relevant difficulties of choosing the incentives and integrating them into a system with persuasion activity, he affirms "Indeed, it is so delicate and complex that rarely, if ever, is the scheme of incentives determinable in advance of application. It can only evolve; and the questions relating to it become chiefly those of strategic factors from time to time in the course of the life of the organization. It is also true, of course, that the scheme of incentives is probably the most unstable of the elements of the cooperative system, since invariably external conditions affect the possibilities of material incentives; and human motives are likewise highly variable."[43] The author adds that the scheme in question is also characterized by instability, because business and environmental conditions are destined to vary over time, as is the case for people's motives.

We now come to topic (b), which has a specific section devoted to it in view of its importance.

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[41] Cfr. Barnard (1938), chap XI.

[42] For analysis of the concept of rationality in the decision-making process, see Churchman (1971), p. 115 ff.; Simon (1958), chap. IV.

[43] Barnard (1938), pp. 158–159.

7.8 General Purpose and Economic Equilibrium in for-Profit and non-Profit Organizations

In the second section of chapter XI of *The Functions of the Executive*, Barnard develops an interesting theory on the mission of companies and on the economic balance to be achieved to ensure the conditions of survival and growth. This theory, in our opinion, is in line with the most modern doctrine; indeed, it is certainly anticipatory. The theory in question concerns *for-profit* and *non-profit* organizations distinctly. In the second category, the author limits himself to considering political and religious organizations, but in our humble opinion, the conclusions reached are extendable to all *non-profit* organizations: service companies, charities, companies characterized by the absence of profit, but based on gifts, solidarity, etc.

7.8.1 Analysis of for-Profit Organizations

We begin with enterprises and therefore the socio-economic organizations that produce goods and services for the market (users and consumers), characterized by the orientation to profit.

From sales on the market comes a stream of revenues that goes to remunerate two types of productive factors:

(a) productive factors "in contractual position," which are linked to the company system through appropriate contracts; their remuneration is a priority and tends to be certain; this remuneration determines the expenses of the enterprise;
(b) productive factors "in a residual position," which refers to the participants who receive eventual and variable remuneration "postponed" with respect to the factors in contractual position. If the revenue flow is lower than the expenses (which represents the remuneration for the factors in contractual position, who must be satisfied as a priority), there is no remuneration for the factor in a residual position. In the western economy, the factor in residual position is normally the holder of equity.

Barnard states that for a company (he refers to an industrial type, but the discussion can be generalized), the primary purpose or its social and economic mission is the production of goods and services that can be sold on the market. In his view, "the purpose is not profit, notwithstanding that business men, economists, ecclesiastics, politicians, labor unions, persistently mistake the purpose. Profit may be essential to having a supply of inducements to satisfy the motives of the class of contributors usually called owners or investors whose contributions in turn were essential to the supply of inducements to other classes of contributors. The possibilities of profit and their relations, in some degree, are necessary in some economies as conditions under which a continuing supply of incentives is possible; but the objective purpose of no organization is profit but services."[44] The author does not *explicitly* specify that the mission of enterprises is the production of marketable goods and services, namely goods and services "wished for" and desired by customers. However, there is no doubt that he intended the mission in this sense, because as a top manager (and this is also reflected in his writings) he was well aware that customers are the compass that guides the productive system and that, therefore, the survival and development of organizations necessarily implies the *creation* and *distribution* of goods and services in line with the expectations of users and consumers. In other words, Barnard was definitely not conditioned by the "law of Say,"[45] according to which any production automatically creates its own demand. That law, in the days when Barnard wrote, had already been refuted in theory and in management practice. In an economy where the majority of people had an income above the "minimum subsistence level" customer satisfaction (and therefore the marketing orientation) had become a fixed point of organization management as well as the main objective to ensure the continuity and development of production units.[46] Sales and marketing were therefore regarded as a primary purpose of the organizations referred to as enterprises, which, by unanimous definition, were qualified by the requirement to "produce for the market."

Barnard was also certainly well aware that revenues from the market formed the basis both to withstand the flow of expenses that went to remunerate the production factors in contractual position and to ensure reasonable compensation for equity (in residual position). Barnard does not use the term "fair return" for capital, but speaks of profit as an essential incentive to "satisfy the motives" of that class of contributors known as owners or investors. However, the substance, despite the different terminology, is the same.

It should be noted that Barnard states unequivocally that a cooperative system, to survive, needs economic resources equal to the sum of the incentives to be paid to members (including profits if it is a *for-profit*-organization) and the costs incurred for the exercise of persuasion. He was well aware that this equilibrium was difficult

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[44] Barnard (1938), p. 154.

[45] Say (1854).

[46] As income level exceeds the minimum subsistence level, consumer behavior becomes increasingly discretional and unpredictable. At the same time, however, such behavior can be more easily influenced and oriented towards particular goods and services. So, while in poor countries the type and amount of consumer spending (aggregate demand, but also specific demand) is fairly stable and predictable, in the most economically advanced nations, people have some discretion between consumption and savings and, above all, in the choice of which goods or services to buy. Therefore, demand tends to be unstable and unpredictable in quality and quantity and, consequently, the management of enterprises cannot put at the center of its attention the problem of studying customers and developing successful marketing in terms of revenues and market share. All this is reinforced by the need to reduce the risks of companies from growing investments in technical fixed assets and intangible assets that must be recovered.

to obtain, but he was confident that this could be achieved also due to management activity, which, organizing and coordinating the work of the various participants, could greatly increase the productivity of the single operators. Management and organizational structure seemed to Barnard to be catalysts and more specifically multipliers of productivity. Therefore, their effect was to obtain from the cooperative work a total economic value (measured in terms of revenues) well above the sum of the economic values attainable by single individuals in the absence of organization, coordination, and a cooperative system.

In the wake of Barnard, R.C. Davis, 14 years later, would shed light on the general objectives of enterprises and the essential, but not primary, role of profit.[47] According to Davis, objectives are the premise of decision-making activities, execution and control. From the objectives derive the functions and tasks; from the functions and tasks follow responsibilities; from the responsibilities, the authority to assign to the various members. Therefore, in the opinion of the author, all the problems of government, organization, and management must be analyzed in the light of the objectives assigned to the company. The functions/tasks, responsibilities, and authority to be conferred must be studied and decided according to the objectives to be pursued and the importance of these objectives.[48]

According to Davis, the objectives, relating to an enterprise, can be classified as follows: primary objectives, collateral objectives, and secondary objectives.

The primary objectives are "to create values desired by customers"; in other words, to produce and sell goods and services desired by customers (consumers and users), with the constraint that economic equilibrium is respected. The basic *stakeholders* are the customers: they provide the flow of financial resources (revenues) to be used to gratify the expectations of all other *stakeholders*.[49] These objectives are realized with functions and primary organs called "*line* functions and organs," which—in the opinion of Davis—are essential, have priority in the event of conflicting decisions, and have formal hierarchical authority. The *line* functions (also called *organic*) *directly* implement the primary objectives.[50]

The *collateral objectives* concern the creation of values desired by the various interest groups that "revolve" around the enterprise, *excluding* customers (who are

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[47] Davis (1951).

[48] Davis (1958), p. 224.

[49] Davis (1958), p. 95, points out that if the enterprise is not capable to serve "economically and effectively that portion of the public that absorbs its economic goods and services, it incurs failure to some extent; if the phenomenon is quite serious and continuous, it may cause the failure of all those who are part of or connected to it, because the values distributed to the organization component groups or those associated with it are deducted from the price paid by customers."

[50] In an industrial enterprise the *line* objectives, functions, and organs concern the following areas: production, sales/marketing, finance. This is because the *primary objective* is the production and sale of goods and services that satisfy the desires of customers in the long term, subject to the constraint of economic equilibrium. Compliance with this constraint is in the area of finance that deals with not only the dynamics of loans and investments, but also the problems of economic equilibrium associated with revenue flows, expenses, and profits, and with the value of the shares.

satisfied, as we have seen, by the realization of the primary objectives of the enterprise).[51] These are the following *stakeholders*: capitalists (credit and equity capital), workers, employees, executives, suppliers, institutional public bodies, trade unions, local communities, etc. Collateral objectives are realized with "functions and collateral organs" or *staff*.[52] Collateral objectives *indirectly* realize primary objectives and must be compatible with them.[53]

Secondary objectives refers to the creation of values necessary to achieve the primary and collateral objectives in an effective and efficient way. Secondary functions consist of study, assistance, service, and coordination that are institutionalized in the organizational framework to improve the quality and performance of the primary and collateral functions: for example, planning and control of production, sales, purchasing, funding, maintenance activity, bookkeeping services, security management, personnel administration, public relations, etc. In addition, the functions and secondary organs are *staff*, because they operate as support to the primary components of the organization (organs and line functions). Such *staff* positions do not have authority over organs placed in different command lines; only in special cases are they assigned "functional authority": these are specific situations, well regulated by organizations, in which complex problems must be solved that require the application of specialist skills possessed only by *staff* organs.

In conclusion, Barnard's analysis, which precedes that of Davis, states that the primary objective of a company consists in producing and continuously selling goods and services required or desired by customers. In other words, the primary objective is to achieve the highest possible volume of revenues, respecting the principle of economic equilibrium, the indispensable requirement for the continuity of the business system.

We emphasized the word *"continuously"* to highlight that the enterprise, according to Barnard, is an enduring system destined to continue its activity in the long term and that, as a socio-economic institution, it remains beyond the life of the people and goods that compose it. Naturally, this is verified if it is governed by effective managers, who can neutralize the tendency to positive entropy and prevent imbalance between revenues and the expenses necessary to incentivize and persuade the members of the organization to participate in its activity over time. It follows that the achievement of the company's primary objective (to produce and

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[51] Davis (1958), p. 95.

[52] The distinction between *line* and *staff* objectives, functions, and organs is made in relation to the type of activity exercised by the enterprises. On this subject, see Davis (1958), p. 291 ff.; Longenecker (1964), p. 186 ff.; Terry (1955), p. 363 ff.; Zanda (2015), p. 253 ff.

[53] The achievement of the collateral objectives (aimed at meeting the expectations of the various *stakeholders* apart from customers) cannot be in conflict with the activity aimed at achieving the primary objectives, which are vital and essential for the company. On this subject Davis (1958), p. 97, states that there is the principle of the supremacy of the purpose of the company organism, which says that when collateral purposes are elevated above the primary purposes and placed before them, the task of the organization is fundamentally changed, and therefore it may not be able to achieve its primary purposes. If these were completely dominated by collateral purposes, the company organism would cease to be an economic institution.

sell goods/services desired by customers) is conditioned by the economic equilibrium to be realized at least in the medium to long term.

We can conclude—having faithfully represented the thought of Barnard—that the economic equilibrium of a company is derived from the aptitude of its management to develop a revenue flow able to cover all expenses, at least in the medium to long term. In addition, this flow must leave a fair return to the factor of production that is in "residual position"; this is the shareholders' equity that is rewarded by profit at least sufficient to gratify the expectations of the shareholders.[54]

The theory of Barnard and Davis on the subject of the primary objective of enterprises has been returned to recently by Martin.[55] The author traces the evolution of capitalism in the last century:

1. the period of *managerial capitalism* based on the separation of ownership and control, in which the theory (related to the primary objectives of enterprises) tended to consider growth as the primary goal of the enterprise, subject to the constraint of a satisfactory minimum profit level;
2. the period of *managerial-shareholder capitalism* (late 1960s–late 1990s) in which the dominant opinion was that large companies pursued the maximization of income and of market value of shares;
3. the period of *capitalism oriented to meet the demands of customers*.

Martin, from thorough analysis, concludes that the primary objective of a productive organization does not consist in maximizing income or the market value of shares. It consists rather in achieving the highest possible customer satisfaction through the production and sale of goods and services. Clearly, it is broadly in line with the views of Barnard and Davis. Martin points out that operational reality demonstrates that companies that have obtained the best results, also in terms of "collateral objectives" (value of shares, profits, salaries, etc.), are especially those that have adopted real orientation to the customer. They have favored the study and satisfaction of consumer and user expectations rather than the goals of "maximization" of income and share value.[56] Companies aiming at the maximization of share

[54] Barnard (1938), p. 95, states in relation to an industrial enterprise that "if the amount paid out is no more than the production, the organization can survive; but if the amount paid out is more than the production, it must cease, since it cannot continue to offer inducement. Whether this occurs depends upon the combined effect of four factors; the difficulties of the environment, the effectiveness of organization effort, the internal efficiency of organization, and the amount of inducements paid. Obviously many cooperative efforts fail because the environment is too resistant, others because the organization is ineffective, others because internal losses are large, others because the price paid for services is too large. Within the range of ordinary experience, these are dependent variables or mutually interacting factors."

[55] Martin (2010), p. 19 ff.

[56] The author, p. 20, presents statistical evidence demonstrating clearly that companies in the period in which they adopted the maximization of value for shareholders as a guiding principle realized a lower rate of real annual return than over the period of managerial capitalism in which the emphasis was on growth and not on maximizing the profit rate. In fact, during this period (1933–1976), for companies included in the S&P 500 index, the rate in question was 7.6%; while in the period from 1976 to 2008, the rate was only 5.9%.

value—according to the author—conversely, have allowed top managers to obtain irrational levels of compensation. This is because it is not connected to the real increase in value of corporate assets, but essentially linked to share prices, which, in turn, are closely dependent on the expectations of current and potential shareholders about the evolution of future cash flows. These expectations are, as a rule, based on psychological factors[57] and on non-systemic information created by sensations, desires, and fears. They are not based on objective data reflecting the "fundamentals" of the company: book equity; financial position; prospective economic situation; evolution of sales and prices; risk rates to be used to calculate the present value of future cash flows; costs of factors to be used in future productive combinations; etc. Martin also observes that if market prices of shares are closely linked to shareholders' expectations of company performance, the only sure way for top managers to increase the share price is to increase these expectations. However, such a strategy can only be adopted if executives continue to manage the company and, in any case, it cannot be practiced indefinitely. There comes a time when managers find it virtually impossible to continue to sustain an upward trend, as the expectation limit is determined by the present value of future cash flows, or namely real possibilities of enterprises.[58] In essence, expectations cannot exceed reality. It should also be emphasized—affirms Martin—that the need to maintain high share price and business performance may push managers to force the situation and to adopt business strategies that harm shareholders in the long run.[59]

Ultimately, according to Martin, the adoption of strategic orientation to "maximize" customer satisfaction by producing desired goods and services appears the most effective in terms of success. This is also because those responsible for company management would be free to concentrate on building the real business, rather than on managing shareholder expectations.[60] In other words, the quality of the deliberative processes would improve and the coordination of the various departments would be more efficient, because, really putting the customer at the center of the business system, managers would be induced to focus their attention on goods and services to produce and sell in the market.

Martin also underlines that company government must be guided by the principle of economic equilibrium: that the volume of revenues must cover all costs and

[57] Martin (2010), pp. 21–22, highlights that, over time, share values show high volatility, much greater than that implied by objective analysis of accounting data. In addition, according to the author, elusive personal and psychological factors affect expectations of the value of shares by the holders of capital. There can be explosions of optimism and depressive moments of pessimism. Martin states that, at the end of 2001, the P/E ratio for the S&P500 was a heady 46×, because shareholders thought the business had entered a new dimension. However, when the euphoria was over, the P/E ratio had drifted to 19× and there it remained until 2007, before increasing to 25× before the 2008 stock market crash.

[58] Cfr., Ibidem, pp. 21–22.

[59] Cfr., Ibidem, p. 21. Martin also underlines that often managers invest in short-term strategies, hoping to leave the company before the inevitable collapse and often, then, criticize their successor for not having been able to avoid obvious decline.

[60] Ibidem, p. 24.

allow reasonable compensation to risk capital. He concludes by stating that determining what is a value for customers and focusing to satisfy them constantly is the best optimization formula. Of course, companies are subject to obvious constraints regarding customer satisfaction: they would immediately go bankrupt if they were making customers happier by offering ever-lower prices in the face of increasing costs. Rather, companies should try to maximize customer satisfaction while ensuring that shareholders get an acceptable return on capital invested, adjusted to take account of the risk.[61]

7.8.2 Analysis of non-Profit Organizations

We will now consider the primary objectives and the economic equilibrium of non-profit organizations. These are organizations that do not produce for sale on the market.[62] In addition, these organizations are not for profit, since their economic equilibrium requires that the flow of revenue is, on average, over the course of several years, the same as the flow of expenses incurred to remunerate the factors of production, excluding equity capital, which is not remunerated. Hence the absence of profit.

Non-profit organizations are variously classified, but for our purposes, we distinguish two types:

(a) the *self-consumption organization,* which produces goods and services that meet the needs of people inside the company (who are members) or who, however, "respond" to the company (for example, companies participating in a consortium);
(b) the *delivery organization* in the strict sense, which produces goods and services that satisfy the needs of people outside the organization (beneficiaries) for whose interests the organization was founded and is managed. The beneficiaries do not normally offer a contribution for the goods and services received, apart from exceptional cases in which symbolic contributions are provided, however, below the cost borne by the company to produce the goods and services.

In non-profit organizations, a balanced "income statement" is desirable: where the value of revenues equals that of expenses. This is the typical economic equilibrium that is generally pursued over time by effective managers. A permanent economic

[61] Martin (2010), p. 23. The author (p. 21) focuses on the concept of maximization of several variables and underlines the logical contradiction. He states that it is not possible to maximize customer satisfaction and value for shareholders at the same time. It is possible to maximize customer satisfaction with a "minimum obstacle to the appreciation of value for shareholders," or, conversely, to maximize value for shareholders "producing a minimum obstacle to customer satisfaction."

[62] It should be noted that there are the so-called social enterprises that produce goods and services that are sold through exchange on the market, but without corresponding profits or, in limited cases, only symbolic, and therefore lower than the market.

surplus (revenues>expenses) is an indicator of the fact that the needs of the clients are not adequately met. A permanent economic deficit, however, indicates bad management, as it means that the assets decrease progressively and, in the long run, the organization is no longer able to satisfy its institutional purposes.

Of course the needs of people who are inside the organization (in self-consumption companies) and those of the beneficiaries (in delivery companies in the strict sense) are best met if the organization's economic resources are managed wisely, realizing in production and delivery processes high yields of production factors and low costs.

In conclusion, in relation to these non-profit organizations it can be affirmed that their *primary objective* is to efficiently achieve institutional goals (set out in their establishment acts),[63] respecting the condition of *sustainable economic equilibrium* (characterized by the balance between revenues and expenses) and managing activities with high economic efficiency.[64]

The concepts outlined above, in our opinion, are broadly consistent with the thought that Barnard expressed on the purposes of political and religious institutions, which are the only non-profit units analyzed by the author. He maintains that the general purposes of these organizations can be very different, especially since they need to meet specific aspirations.

In political organizations (which have no material production), the adhesion of participants is stimulated by intangible incentives associated not only with moral gratification, community satisfaction, and personal prestige, but also with material rewards; the persuasion process in its various manifestations is rather significant for adhesion.[65]

In religious organizations—according to Barnard—"the predominant incentives appear to be ideal benefactions and the communion of 'kindred spirits'".[66] Even the lower-order material incentives appear quite effective. However, one of the most important tools—in his opinion—is "persuasion, known as missionary or proselyting effort.".[67] Contributions are required from participants primarily in the form of "intensity of faith and loyalty to the organization"; however, considering the great need for material resources to maintain the organization and to subsidize missionary activity, often various members are tactfully requested to make material contributions

[63] The satisfaction of needs must be reasonably effective. The control of this condition is effected by managers analyzing the quality and quantity levels of company performance. To this end, it is necessary to build adequate benchmarks of similar entities that are meaningful and permit the correction of strategies and policies followed by the organization, thus raising the target of satisfaction.

[64] Since non-profit companies are not controlled by the market (although in some cases there is some competition), it is essential to constantly check the physical and technical performance of production factors and management costs. In addition, in this case the use of appropriate benchmarks helps to create effective and efficient control.

[65] Barnard (1938), p. 157.

[66] Ibidem, p. 157.

[67] Passim.

to the cause pursued.[68] In any case, Barnard states, all for-profit and non-profit organizations, regardless of the institutional mission, must respect the condition of economic equilibrium if they are to survive. In fact, the cost of incentives and persuasion activity cannot exceed the value of the flow of resources that the company can procure, or only in the short term and in certain exceptional moments.

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[68] The author, p. 158, adds, "The material aspects of religious organizations have been often prominent and always inescapable. As a result, the combination and adjustment of incentives in religious organizations appear even more delicate and difficult to administer than in political, military, or industrial organizations."

Chapter 8
The Compatibility of Effectiveness and Efficiency: The Pillars of Barnard's Theory of Cooperation

Abstract In this chapter, the research focuses on certain concepts often cited earlier: effectiveness and efficiency. It must be emphasized that the two phenomena that underpin cooperation are not spontaneously convergent and that effectiveness and efficiency and, above all, their equilibrium are the effect of the systematic management process, inspired and shaped by the quality of leadership.

8.1 The Conventional Concepts of Effectiveness and Efficiency

The concepts of effectiveness and efficiency presented by Barnard are very important for the development of his theory of the cooperative group. While his concept of effectiveness is in line with conventional theory and practice, his concept of efficiency is very particular and is clearly different from the traditional one. The conventional concepts of effectiveness and efficiency can be summarized as follows.

Effectiveness is an indicator of the capacity of the company system and its subsystems to achieve planned targets (production, sales, market shares, etc.) in reference to a specific period. It is measured calculating the relationship between forecast objectives and effective realization of results.

Efficiency is an indicator of the aptitude of the company to operate economically. Its fundamental key indicators are physical-technical performance and costs.[1]

Physical and technical performance refer to the various production factors and processes. They are always calculated in relation to a specific period of time (day, week, month, etc.). A performance is calculated as a ratio between the quantity of goods/services produced and the quantity of factors or production processes used in that time frame. In an enterprise, the dynamics of a particular performance over

[1] Company profitability can be realized at more or less elevated levels in relation to the company's ability to implement the technical-economic processes of management with high efficiency: high performance and low costs. Obviously, profitability reaches ever-lower levels if performance falls and costs increase. Efficiency and its indicators (physical and technical performance and costs) are the tool to explain the causes of the more or less high level of company profitability and to intervene with appropriate measures to return the management to satisfactory levels of convenience/profit. On this point, see: Onida (1971), p. 69 ff., Zanda (2015), p. 283 ff.

S. Zanda, *Building Efficient Management and Leadership Practices*, Innovation, Technology, and Knowledge Management, DOI 10.1007/978-3-319-60068-0_8

time should be interpreted keeping all other conditions equal and the variation of a performance should be interpreted considering and evaluating its effects on the overall business system and, in particular, on revenues, costs, and income.[2]

With regard to costs, it should be noted that, other conditions being equal, the lower the costs, the higher the resulting efficiency. In addition, variations in costs, calculated in reference to the various items (business system, business functions, processes, productive factors, single products/services, etc.), should be interpreted in relation to their effects on the overall company revenues, costs, and income system.[3]

8.2 Efficiency and Effectiveness in Barnard's Thought

In his theory of the "cooperative group," Barnard points out that the social order is predominantly based on solidarity, empathy, and cooperation and not on manifestations of selfish individualism. In practice, the aforementioned cooperative solidarity is also evident in the creation and establishment of formal organizations.

The moment an organization is created, an impersonal goal is established that is distinct from the goals of the individuals who compose it. Normally, personal objectives do not coincide with those of the organization; and those of the organization are not configurable as the sum of the individual aims of the participants.

The company appears to Barnard as a collaboration tool and individual members are induced to cooperate (and to meet in a formal organized system) if, through their participation, they can satisfy their needs better than they would if they were acting in isolation in an environment in which everyone tries to satisfy individual utilitarian desires. The organization, therefore, is a useful tool if it creates the effective conditions for operational cooperation; but it is not the place where company and individual objectives converge spontaneously and almost automatically.

The catalyst to achieve compatibility between the two types of objectives is "the management function." Despite being characterized by personal motivations, the manager tends, when he serves in the "role of manager," to assume a neutral, responsible, "organizational personality" which pushes him to work for the "common good" to reconcile conflicting motivations. The neutral, independent personality is essential to develop collaboration between the various members and to keep the organization constantly oriented towards a common goal, even using motivation processes able to improve the collaborative system. The executive, as mentioned

[2] Cfr. Onida (1971), p. 72 ff.

[3] The economy of the firm, as a company producing for the market, nowadays, is not only an economy of costs, but also of costs and revenues, so that must be found convenient solutions for the problems regarding particular components of the system, such as production costs. From this point of view, limitless cost reduction and at any company condition could sometimes result as uneconomical both for the company and for society. See Onida (1971), p. 78.

previously,[4] must strive to create an organizational system that functions properly. This means he must formulate a common, unifying corporate purpose, create a balanced organizational structure, design and implement a coordinated management system, and develop a stable cooperative system, based on a sustainable balance between the rewards that the company provides participants and the contributions it receives from them. All this, of course, while respecting the constraint of economic equilibrium, to which the company's "survival" and development are linked.

The concepts of effectiveness and efficiency in Barnard's model are related to the distinction between the organization's purposes and those of the individual.

Effectiveness is the concept and indicator used to measure the level of achievement of company objectives: overall objectives, as has been seen, are to produce and sell goods and services desired by customers, respecting the condition to achieve economic equilibrium over time. The objectives of the various business sub-systems and organizational units of lower order (divisions, departments, etc.) descend from the general objectives. They follow the means-ends chain and organizational lines of command to reach the objectives of the individual organizational positions. Effectiveness, in essence, is the extent to which organization members "respond" to the impersonal requirements of organizational roles. It should be remembered that the required performance—in the context of the programming of the organizational structure—is determined abstractly, even if, in the performance of operating activity, the roles are exercised by individuals who have adapted, to a greater or lesser extent, to the content of these roles.[5] The requirements of organizational roles are the expression of the interests of the organization, or, more precisely, they are the result of how managers[6] interpret organization objectives in an attempt to mediate, reconcile, and merge the general interests of their company with the personal interests of participants in order to create a cooperative system.[7]

Now we come to business efficiency. Barnard's concept of efficiency, as was pointed out earlier, is clearly different from the conventional one. According to the author, efficiency is the extent to which the organization is able to meet the needs of the individual participants over time, through a system of tangible and intangible incentives and through delicate persuasion. The participants, in the author's broad view, consist of the various stakeholders who are interested in the results of the

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[4] Cfr. Sects. 5.3, 5.5 of the present work.

[5] The requirements of roles are therefore specified in a cold and impersonal way. However, often, the characteristics of roles are then adapted to the capacities of those who actually cover them.

[6] The reference is mainly to *top managers* who really run companies.

[7] Many executives of large organizations, with considerable powers, who are able to influence the lives of members of the company system and have an impact on the external environment, often, present a "utility function" oriented to the common good, empathy, sociability, respect, and promotion of the person. In such cases, these managers feel very responsible and consider the organization a "social community"; therefore, they tend to interpret the organizational purpose in order to make it compatible with the "common good."

In reality, this does not always happen. In fact, the "utility function" varies according to the moral codes that inspire the conduct of managers. Therefore, there are different ways in which the company's goals are integrated with the personal objectives of members.

company: customers, shareholders, employees, suppliers, creditors, etc. The rewards that stimulate participants to cooperate may be, as mentioned above, material (suitable and affordable goods and services, dividends, salaries, wages, prices paid, etc.) and immaterial (gratification of social needs, self-esteem, esteem of others, and self-realization). According to Barnard, the development of cooperation is largely determined also by persuasion processes in their various forms, some acceptable and others not quite so commendable, not being inspired by higher ethical principles and respect for the individual.

Essentially, incentives and managerial persuasion are used to stimulate participants' contributions (commitment, high productivity, loyalty, creativity roles, etc.); but the level of individual contributions depends on the actual satisfaction of the needs of the various members.

8.3 The Concepts of Effectiveness and Efficiency Are Not Spontaneously Convergent

A fundamental task of management—according to Barnard—is to balance the cost of incentives and persuasion with the value obtained by the contributions of participants, bearing continuously in mind the inescapable condition of economic equilibrium. In other words, management must strive to meet the expectations of participants (efficiency) to obtain the contributions necessary to achieve the organization's objectives (effectiveness) and to respect the condition of economic equilibrium.

From the above, it is clear that a good company management must have not one, but two orientations: it cannot be limited only to achieve the impersonal goals of the organization (effectiveness orientation), but it must also be concerned with satisfying the needs of participants (orientation to efficiency understood in Barnard's sense), because the contributions of the various members of the organization depend on this satisfaction. In addition, the value of the contributions must be such as to permit respect of the condition of economic equilibrium.

The two pillars of the cooperative system, that is to say effectiveness and efficiency, are not automatically linked by a positive correlation. In reality, you can find effective but not efficient company systems: in this case the "socializing dimension" (company interests) takes precedence over the "personalizing dimension" (individual objectives and motivations). Naturally, you can find opposite situations in which the conditions of efficiency are mainly satisfied and effectiveness is neglected.

The survival and development of an organization require complementarity between effectiveness and efficiency; their permanent negative correlation leads inevitably to the company's ruin. In the course of time, there may be different combinations of effectiveness and efficiency levels but as long as these combinations do not reach pathological levels by meeting "reasonable," acceptable levels of effectiveness and efficiency and, above all, if economic equilibrium can be dynamically realized, the organization can survive.

It should be noted that Barnard's distinction between effectiveness and efficiency formed the basis for many subsequent studies on management styles that make the distinction of styles according to two parameters: "task orientation" and "people orientation."[8] The first type of approach emphasizes the interests of the firm and can be seen in Barnard's concept of effectiveness. The second expresses the interests of personnel and outlines the relations to be established in the company; this approach can be traced back to Barnard's concept of efficiency.

Barnard's thought on the manager's responsibility is also very enlightening for subsequent studies about management styles. As mentioned earlier, when an executive plays a management role, he tends to take on an "organizational personality." This gives him the task of balancing the interest for production (effectiveness) with the interest for people (efficiency). The manager thus becomes the element that has the responsibility to make the two interests compatible, balancing them fairly. The balance takes place—Barnard states—in relation to a system of assumptions that direct the behavior of the manager: private moral codes, sense of responsibility, organizational situation, environmental situation, economic and financial conditions of the company, etc.

The ideas outlined above have been widely used over time by many authors, and still represent safe guidance for students of management and, in particular, leadership.

8.4 The Equilibrium and Sustainability of a Cooperative System Depend on the Ability of Executives to Make Effectiveness and Efficiency Compatible

8.4.1 Introduction

To allow the company system to realize stability and order and to permit it to survive and develop, the effectiveness and efficiency levels must not fall below certain levels judged appropriate. The ideal would be to make the two pillars of cooperation compatible and synergistic, meaning that the more efficient you are (the better the needs of participants are satisfied), the more you increase the level of effectiveness (realization of the organization mission and objectives) and vice versa.

Management must therefore constantly analyze and study the two phenomena and introduce regulation processes by means of which the values of effectiveness and efficiency are maintained within the desired limits, and in any case, at a safety level (of fairness and acceptability). This is not, however, to realize a simple, homeostatic situation, but to adopt regulation processes, also through the insertion of new energy (specialized knowledge, creativity, technological and organizational

[8] See, among many models, those of Blake and Mouton (1964), Blake and McCanse (1991), Hersey and Blanchard (1988), Tannenbaum et al. (1961).

innovation, and marketing). This enables the organization to maintain a high level of order and to evolve towards levels of a higher degree (differentiation, diversification, size development, technological and market leadership, economic and financial solidity, etc.).

In essence, the regulation process should be somewhat similar to that which characterizes, in the words of Bertalanffy, the dynamic equilibrium of living organisms, which maintain their internal order, despite the continuous irreversible processes that take place in them and even, proceed during the development and evolution towards differentiations of a higher order.[9] It follows that a virtuous process—aimed at creating compatibility between these phenomena and, consequently, a positive correlation—should develop measures to create conditions that permit members of an organization to notice that, the more appropriately they respond to the requirements of organizational roles, the more they can satisfy their needs.

8.4.2 Requirements to Develop Compatibility Between Effectiveness and Efficiency

Returning to the previous subject, below we highlight the elements to be promoted to make effectiveness and efficiency compatible and to achieve sustainable equilibrium of the cooperative system.

The conclusions are, to a large extent, derived from Barnard's thought. We have also considered it useful to create a personal framework of the problem and present some thoughts on the subject of management patterns. As mentioned, compatibility between effectiveness and efficiency is the basis for the creation of the cooperative system. To achieve this compatibility the following requirements must be met:

(a) adequate programming and control processes (and their related feedback procedures) are developed in order to coordinate the decisions and actions of the various participants;
(b) a valid organizational process is implemented that creates the organizational structure and the information and communication systems;
(c) acquisition of the resources necessary for the organization is carried out; an incisive incentive system is adopted and a significant process of persuasion of the various participants is developed.

    In addition to these prerequisites, compatibility between efficiency and effectiveness (and the related development of cooperation) requires two things:

(d) a review of the general goals to be assigned to companies and, in particular, to enterprises. It is necessary to affirm the principle that an enterprise is a socio-economic system whose primary mission is to produce and distribute goods and services desired by customers (users and consumers) and that the expectations

[9] von Bertalanffy (1971), pp. 248 and 249.

of the other stakeholders are constraints that must be satisfied to a reasonable extent;

(e) the adoption of a leadership characterized by a high "moral system" and a high level of managerial responsibility that is expressed also by the manager's adoption of an "organizational personality" that goes beyond the "individual personality."

Since the points mentioned under (a), (b), and (c) have been extensively dealt with before, the following analysis will focus on issues related to points (d) and (e) to which the following sections of this work will be dedicated.[10]

8.4.3 A Review of the General Organization Goals: The Production and Distribution of Goods and Services

To develop compatibility between efficiency and effectiveness it is undoubtedly useful to recognize the concept of the organization's *primary purpose*, as set out above.

As has been amply illustrated in relation to profit-oriented companies, the aim is to create goods and services desired by customers (or beneficiaries in the event of *non-profit* companies) respecting the condition of economic equilibrium. According to this principle, in enterprises revenues must cover costs, leaving a "reasonable margin" (satisfactory says Barnard) of profit for risk capital.[11]

The advantages for the organization, by the adoption of a management philosophy based on the above-mentioned concept of primary objective, are considerable.

This is mainly because top management is forced to focus on building the business, rather than on managing the expectations of shareholders (as happens in enterprises oriented to maximize profit or share value). In particular, management activity is focused on the determination of objectives and strategies: the choice of products/services, markets, technologies, competitive factors, and the use of resources.

This management philosophy also forces executives to pay particular attention to the expectations of the "main interest group" (customers) and to implement policies that provide real satisfaction of their requests.

Above all, this orientation prevents top managers from being tempted to venture unprepared into risky strategies involving the "financialization" of business and designed to suit the erratic and short-term expectations of shareholders. These mainly speculative financial operations are often distant and sometimes extraneous to the core business that characterizes the company. They are generally implemented for the sole purpose of achieving the half-yearly or even quarterly or monthly profit

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[10] Note that the general aims of enterprises were already analyzed also in Sects. 7.8.1 and 7.8.2; but there the issue was not the problem of making effectiveness and efficiency compatible.

[11] In *non-profit* companies, profit is not envisaged and, therefore, the economic equilibrium consists in parity between revenues and costs.

targets and the share value that allow managers to remain in their control positions. However, the management policies in question do not reflect real entrepreneurship and, very often, are not compatible with the integrity and continuity of enterprises. Normally, if assessed in the long term, they do not meet the expectations of customers, or shareholders, or the other stakeholders who are interested in the company results (employees, banks, suppliers, local communities, etc.).[12]

Ultimately, taking as their primary objective the production and sale of goods and services desired by customers frees top management from the annoying worry of managing the ever-growing expectations of shareholders. It avoids speculative and reckless operations and, above all, in relation to the unifying effect exercised by orientation to customers, it obliges company managers to consider efficiency more systematically, which is the proper realization of all the "collateral objectives."[13] As seen earlier, a management philosophy based on customer service tends to develop incentive plans based not on short-term rewards, but on a remuneration system that induces managers to develop and implement policies creating value for all stakeholders, planned in the long term.

In our view, it is necessary to promote and spread this new philosophy of management in the seats of academia, cultural centers and in companies, especially at this moment in which the theory of the maximization of profit and share value is consolidating.

This theory has asserted itself since the mid-1960s, with the advent of managerial *shareholder capitalism* based on the "financialization" of large corporations. This type of capitalism is very different from the previous capitalism[14] for at least the following reasons:

(a) enterprises are considered instruments that are established and managed to satisfy exclusively the interests of controlling shareholders and to maximize share

[12] Cfr. Martin (2010), p. 21 ff.

[13] Among the collateral objectives there is of course that of the congruous profit that has to take into account the results of the market and business risk. It is a satisfactory value. If you adopt the new customer service culture, it does not necessarily have to follow the erratic expectations of shareholders in the short or very short term. This is because these expectations are very often disconnected from the economic values of company investments and are based on nebulous and optimistic forecasts. Human psychology is very curious: what you would like to exist or occur, is often imagined to exist or occur. Thus, reality is lost. But what is more surprising is that these expectations built on desires end up dominating and orientating stock exchanges, where the average investor, the victim of prophecy and superficiality, follows, imitates, and exceeds, developing a process that creates virtual values, which dissolve in the light of market results.

On this topic, see Oricchio (2010), chaps. II and VI.

[14] The reference is mainly to the period from the First World War to the end of the 1960s. In this period, there was first the so-called entrepreneurial capitalism and, from the mid-1930s, managerial capitalism. The latter was characterized by the separation between company ownership and company management and by management philosophies that favored growth in size and did not tend to maximization of profit and share value, but showed aspects of solidarity and openness towards the various *stakeholders*.

value. The followers of this theory, Milton Friedman[15] and Theodore Levitt[16] expressly state that those who govern businesses, apart from the need to respect the law, have no constraints of social responsibility: their goal is to maximize the value of shares without considering, or even neutralizing the expectations of other stakeholders. Essentially, social objectives, if pursued, would constitute a serious danger because these objectives are extraneous to the concept of enterprise, which is an institution that only serves the interests of capital;

(b) the management of large enterprises relentlessly pursues the policy of increasing shareholder wealth by resorting, to a large extent, to financial operations (mergers, demergers, restructuring and sale of company branches, etc.) and reducing entrepreneurial activities in industrial or commercial fields. The production of goods and services is progressively reduced and large and growing space is left to financial operations, especially speculative, conducted mostly from a short-term point of view;

(c) the main company decisions refer to the short term and are conditioned by the pressure of shareholders' expectations that fix profit targets and share value at unreasonable levels. Thus, managers (totally dominated by shareholders and intoxicated by the scent of exaggerated rewards related to financial targets) are induced to take increasingly risky managerial decisions, which, in the long run, undermine company continuity and trigger processes of social unrest.[17]

In the wake of these values, at the end of the twentieth century, a system of "irresponsible enterprises" asserted itself in the world economy, always blindly pursuing short-term policies to increase share value, which excluded from its decision-making processes any consideration for customers, the environment, safety, local communities, employees, and suppliers.[18]

In the last 20 years, with the advent of the third industrial revolution based on information technology, microelectronics, telecommunications, artificial materials, robotics, and biotechnology, things have changed slightly. New management concepts have appeared that combine economic rationality with ethics, trying to recover the concept of company as a community that seeks to respect the person and create cooperative business systems and the common good. We are probably heading towards "knowledge capitalism," promising new things. However, it seems to be proceeding extremely slowly.

It is true that it takes a long time to produce significant changes; but it seems of fundamental importance that a general theory of the firm (for-profit and non-profit organizations) is developed that creates the rules to supply the profession of manager with a moral foundation and to highlight new objectives for companies. In this

[15] Friedman (1962). The author, Nobel Prize in economics, has dominated the world scientific landscape for many decades. His ideas are still shared by the majority also because they are supported by the powerful Chicago school of economics.

[16] Levitt (1959).

[17] Cfr. Zanda (2012), chap. 6.

[18] On this point, see in particular: Wells (1993), Mitchell (2002), Stiglitz (2002), Bakan (2004), and Gallino (2005).

sense, it may be useful to reaffirm and promote the concept of *service to customers* as the primary objective of organizations.

8.4.4 Leadership Based on Responsibility Is Fundamental to Make Effectiveness and Efficiency Converge

8.4.4.1 The Role of Management in Adapting Organization Conduct to the External Environment and to the Requests of Organization Members

To make effectiveness and efficiency compatible,[19] in Barnard's sense, adequate leadership should also be developed, based on the responsibility of managers.

The creation and maintenance of an effective organization involves the analysis of and "coping with" the external environment (customers, capitalists, suppliers, competitors, unions, etc.) through a series of strategies to adapt business to changes in the environment and to influence it so that the company mission and objectives are achieved at a satisfactory level.

Creating and maintaining an effective organization also implies the setting up of a range of internal units, which operate in a coordinated manner, constantly bearing in mind the general aims and objectives of the company.

Focusing on the second point, it must be emphasized that creating a cohesive organization is a very complex and difficult task because the average organization man is not a machine that once set and started, automatically and predictably pursues the predetermined goals. The average man has motivations, values, attitudes, and specific goals and therefore does not conform spontaneously to the organization's requirements. He tends to interpret environmental phenomena personally; therefore, when his interpretation is different from that of hierarchical superiors and other people he works with, his conduct may be inconsistent within the company system and develops disorder and lack of coordination (positive entropy). The organization man also tends to interpret his role in a personal way; this can develop conflicts, lack of coordination, duplication of tasks, and power vacuums. The organization man also tends to filter and distort information; since this is the raw material of decisions, controls, and actions, it can be easily understood how this

[19] Compatibility does not mean that personal and organization goals must coincide. It means, instead, that the organization's goals, despite being impersonal, can become—if properly adapted—compatible and acceptable to participants and, therefore, they can "unify" and coordinate the conduct of all members. This is why Barnard sometimes defines organizational goals as "common objectives"; as mentioned above, it alludes to their orientation function, their unifying action.

If management is fully participatory and inspired by theory Y, then through the fusion process, the organizational objectives set by the organization in its business plans are adapted to satisfy the motivations of participants in their work. As we mentioned, however, in our opinion, Barnard fundamentally aimed to achieve a socialization and not a fusion process.

phenomenon can negatively affect the behavior and results of the company and its sub-systems. These and other phenomena are faced and generally neutralized by the management process discussed previously.[20] Here we summarize the basic functions:

(a) creation of an organizational structure composed of a set of roles and lines of influence, both authoritarian and non-authoritarian;
(b) adoption of the planning and control processes (including feedback) that specify objectives, strategies, policies, procedures, and systems to regulate the behavior of the various corporate members. The organization is completed with the preparation of an information and communications system that feeds company decisions and controls and allows continuous adaptation of the conduct of the business system and its sub-systems to changes in the environment and in company targets;
(c) the acquisition of the services of participants using a system of incentives and persuasion activities;
(d) adoption of a model of leadership based on technical and professional skills and the responsibility of managers, which aims to develop collaboration and to create and maintain a cooperative system.

Next, we focus on the leadership function, which is essential to make effectiveness and efficiency compatible.

8.4.4.2 The Function of Leadership: Its Contribution to Make Effectiveness and Efficiency Compatible

Leadership *contributes* in making compatible the two pillars of the cooperative system: efficiency and effectiveness. *Contributes*, because, as Barnard acutely observes,[21] cooperation is not only the result of leadership alone, but also in combination with the other management activities previously referred to, of organization, planning, control, etc. Obviously, there is no lasting cooperation without leadership. This is the catalyst that sets in motion the living system of human effort. According to Barnard, leadership is, "the power of individuals 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."[22]

The function of leadership is of *strategic importance* within the management process. It inspires the types of programming, control, organization, and incentivization that will be used in the company in practice. It determines, in particular, its policy in the use of resources and affects productivity and employee satisfaction.

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[20] For deeper analysis, see Sects. 4.3, 4.6, 7.2, and 7.3.

[21] Cfr. Barnard (1938), p. 259.

[22] Ibidem, p. 259.

In other words, the quality of decisions, the use of authority, the amount of delegation, the forms of control and regulation adopted, the quality of organizational roles, the type of organizational relationships, the nature of the information system, and the quality of reward systems are significantly influenced by the leadership models adopted by managers. Management styles can therefore be regarded as a "causal variable" which decisively affects the health and energies of the organization and its results.[23]

Barnard distinguishes two aspects of leadership: (a) the technical aspect and (b) the "moral system and responsibility aspect."

The first reflects individual technical "superiority," namely the excellence of a person in terms of technological knowledge and technical skills related to business activities,[24] the physical qualities, perception, memory and other qualities that generate respect, admiration, imitation, and emulation in others.[25] The leader thus becomes a point of reference for colleagues and subordinates.[26]

The second aspect is the most relevant for our purposes. It is referred to when studying or discussing the qualities/capacities that form, using the terminology of Barnard, "the moral factor of the organization."[27] On this point, the author's view is complex and detailed and it is therefore very hard to summarize without the risk of producing an unclear and partial analysis.

8.4.4.3 The Moral Factor of the Organization According to Barnard: Ethical Codes and Sense of Responsibility

Barnard highlights that the personality of an "effective manager" is characterized by two main elements: a "moral state" (presence of various moral codes of conduct) and a "sense of responsibility."[28] Because we are dealing with managers, both must

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[23] Cfr. Zanda (2015), p. 71; the author adds that the function of leadership is the detonator that causes satisfaction and productivity to explode; but if there is inadequate leadership, the entire company system will be negatively affected; in this case, leadership is the evil plant from which is distilled the poison of discord that disrupts the company system and reduces productivity and employee satisfaction.

[24] Technical skills are, for example, those of finance, marketing, law, informatics, accounting, market research, programming techniques, etc.

[25] Cfr. Barnard (1938), p. 229.

[26] We point out that technical skills/abilities are an important feature of the successful executive because their presence improves—other conditions being equal—the superior–subordinate relationship; in fact, some research indicates that the quality of this relationship is closely linked, among other things, to the satisfaction of the following conditions: having a competent boss; having faith in receiving just and fair treatment (an incompetent boss is often a source of injustice, misunderstanding, discrimination, conflict, and inadequate assessment of merits). On this point, see McGregor (1960), chap. 10. The author refers to the results of research on the subject by the Institute for Social Research of Michigan University.

[27] Barnard (1938), p. 230.

[28] Barnard in his *The Functions of the Executive* of 1938 considers ethical codes and responsibility of the two pillars of leadership; in his later work of 1946, *The Nature of Leadership* the author

be of an above-average level. We will proceed in order, first analyzing the "moral state" and then "responsibility."

The behavior of a manager is largely inspired by various private moral codes of conduct.[29] According to Barnard they are, "moral 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 to intensify those which are consistent with such propensities. This tendency to inhibit, control or modify inconsistent and to reinforce consistent immediate desires, impulses or interest is a matter of sentiment, feeling, emotion, internal compulsion, rather than one of rational processes or deliberation, although in many instances such tendencies are subject to rationalization and occasionally to logical processes."[30] More particularly, moral systems, moral state, or individual psychology originate from forces external to the person. "Morals arise from forces external to the individual as a person. Some of them are believed by many to be directly of supernatural origin; some of them derive from the social environment, including general, political, religious, and economic environments; some of them arise from experience of the physical environment, and from biological properties and phylogenetic history; some from technological practice or habit. Many moral forces are inculcated in the individual by education and training; and many of them accrue through absorption, as it were, from the environment—by imitation or emulation, and perhaps also in the negative form of absence from concrete experience..[31]

Every person has various private codes[32] that can be inferred, above all, from their actual behavior. These codes originate, as has been said, from multiple sources of influence and from numerous activities. Each code presides over or conforms to a particular sphere of reality: there are religious, political, patriotic, family and citizenship codes, respect for the individual, codes on the use of coercion, loyalty, duties towards the organization, on the qualitative standard to respect in carrying out professional work,[33] etc.

The number of codes present consequently determines the level of complexity of the "moral state," which, evidently, can be simple, but also very complicated. When

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maintains that the two fundamental pillars of leadership are: (a) the moral codes of conduct system; (b) personal qualities of the leader (which also include responsibility).

[29] Barnard (1938), p. 261 ff.

[30] Barnard (1938), p. 261.

[31] Barnard (1938), p. 262.

[32] The codes considered most important or dominant in society and, in essence, those most professed publicly, are "public codes."

[33] "Doing things the 'right' way is a dominant *moral* code in the specialized code in the specialized work of many of fine mechanics, musicians, artists, accountants, engineers, for example. No other code on earth dominates their conduct in case of conflict; and the domination will be so complete that they will not be aware of the conflict until perhaps after the event… To regard such domination as merely an incidence to technical habits is to miss the point. In these cases, it is not a matter of better or worse, of superior or inferior processes – a judgment rationally arrived at. It is a matter of *right* or *wrong* in a moral sense, of deep feeling, of innate conviction not arguable: emotional, not intellectual in character." Barnard (1938), p. 266.

dealing with management—according to Barnard—the complexity tends to increase also because, as soon as a person has a management role, he tends to adopt many "supplementary codes" regarding the new organization together with personal moral codes. These additional codes vary depending on the characteristics of the company, its business model, its technology, and its history. "Codes of the organization are themselves accruals largely of intangible forces, influences, habitual practice, which must be accepted as a whole."[34] The manager tends to internalize these principles because, with the assumption of the role, he develops an "organizational personality" which tends to overcome the "individual personality." This is also related to the fact that the role is usually accepted willingly and perhaps after a long period of anxious waiting.[35]

These codes and their way of combining create a more or less complex "moral system" and influence the behavior of the manager.

Although related to the "moral system," "responsibility" is different. As a first approximation, responsibility is the individual's aptitude to respect the moral codes to which he is committed. These codes are known by third parties (in particular subordinates); therefore such compliance, in the presence of strong contrary impulses and desires not to respect the codes, has the effect of highlighting the courage, tenacity, determination and, above all, the firmness and consistency of the individual. Evidently, this creates in third parties coming into contact with the leader (subordinates, peers, superiors, people outside the company) a sense of reliance on the individual: in the presence of reliable, consistent, resolute leadership.[36]

If the codes are numerous and problematic, because, for example, they rest on assumptions that are hard to reconcile, then concrete situations and specific activities can lead to the likelihood of conflict between codes and generate inner moral dilemmas.[37] This danger increases with the number of codes and the complexity of the reality to be dealt with.

A responsible individual manifests a general willingness to respect all codes adopted, however, in the case of a conflict between codes, he must dominate the situation and establish consistency of behavior that consolidates his reliability in the minds and hearts of other people. Here is the real concept of responsibility: an

[34] Barnard (1938), p. 273.

[35] In reference to an industrial enterprise as an example, Barnard (1938, p. 273) presents the following set of organization codes which a hypothetical manager might be asked to comply with: "(1) the government code as applying to his company, that is, the laws, charter provisions, etc.; (2) obedience to the general purpose and general methods, including the established systems of objective authority; (3) the general purpose of his department; (4) the general moral (ethical) standards of his subordinates; (5) the technical situation as a whole; (6) the code of the informal executive information; (7) the code that is suggested in the phrase "*the good of the organization as a whole*"; (8) the code of the informal organization of the department; (9) the technical requirements of the department as a whole."

[36] Barnard (1938), pp. 259 and 263.

[37] Note that a problem can arise when a desire or an impulse is consistent with a code, but it is incompatible with another code. In essence, a particular code can support a desire and therefore gives it full justification; while another code may determine that the desire is not acceptable.

individual, in addition to having a general attitude to respect the codes, must have the capacity to develop and implement a strategy that organizes all the codes of conduct that constitute his "moral state." He must develop an "ordinal function" of importance of codes and a set of rules designed to appreciate the impact of actions on the individual codes and thus allow resolution of conflicts and dilemmas of behavior. It is, thus, to prepare a "superior code" capable of ensuring the reliability of the person. Of course, and this is a crucial point, the order of importance of the codes cannot be improvised every time, but must be internalized by the leader and *declared and reflected* in his actual conduct.

The above, it should be emphasized, is our broad interpretation of Barnard's thought. In fact, the author in first place is not concerned with the problem of revealing in a clear and transparent way the choice of "superior code" and, secondly, interpreting its wording to the letter does not clarify the process of building an ordinal function, but merely indicates a general strategy for conflict resolution between codes. This strategy is summarized as follows.

In the presence of a conflict, if one of the codes affected is "superior" or "dominant," "there is usually no serious personal difficulty, and the actor is usually not aware of conflict."[38]

When, however, "codes have substantially equal validity or power in the subject affected, conflict of codes is a serious personal issue"[39] and the consequences—according to the author—are the following:

- paralysis of action, "accompanied by emotional tension, and ending in a sense of frustration, blockade, uncertainty, or in loss of decisiveness and lack of confidence"[40];
- alternatively, one of the codes is followed, neglecting and violating another; in this case there can be "a sense of guilt, discomfort, dissatisfaction, or a loss of self-respect"[41];
- or an alternative action is found to satisfy a desire, an impulse, or an immediate interest, so that no code is violated; this solution, in the opinion of Barnard, "frequently requires imaginative and constructive ability."[42]

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[38] Ibidem, p. 264. From this statement, it appears that the individual has an ordinal function of importance that emerges automatically and guides the choice in favor of the dominant code.

[39] Passim.

[40] Passim. As we see, such behavior does not solve the conflict between codes; they will exacerbate inner dilemmas and you can even come to lose leadership, as the trust of others in the consistency of the *leader's* behavior is undermined.

[41] Passim. In this case, it is not clear how the choice is made between codes that appear to have the same importance. Does the individual act impulsively case by case? Or does he have a "super-code" that creates order in "the moral system" of the individual, establishing the criteria that determine the order of importance of the codes? Whatever the solution, the adopted choice resolves the conflict and has no negative impact on leadership only if the mechanism of choice is transparent and clear, and if this mechanism is generally constant over time in order to consolidate the consistency and reliability of the individual.

[42] Passim. On this hypothesis, the conflict is solved. It is a solution based on mediation regarding management activity, in order to respect the codes of conduct. This mediation, in Barnard's view,

What private moral codes consist of was mentioned earlier and that public moral codes are the most professed in society because they are considered by the majority to be the most appropriate for social life.

Barnard specifies that it is a widespread conviction that responsibility exists (in the sense that we have seen previously) only when the private and public codes adopted are in line: if there were no conduct adhering to public codes, there would therefore be lack of responsibility. However, in the opinion of Barnard,[43] the capacity of responsibility is not related to the quality or complexity of the moral state of an individual, but with his capacity to adapt to his private codes[44] even in the presence of significant difficulties. Therefore, the "quality" of the ethical norms, as expressed by the social majority, does not matter because, Barnard states, "the point is that responsibility is the property of an individual by which whatever morality exists in him becomes effective in conduct."[45] It is this conformity, this decisiveness, this consistency to make people responsible that identifies them—according to Barnard—as effective leaders, because they know how to develop feelings of reliability and security in participants. Participants develop a solid faith in the leader,[46] in the programs he proposes, in checks he carries out, and in his management of the expectations of the various members involved in the organization. Ultimately, for the author, the "capacity of responsibility" (which enables a leader to be firmly guided by his moral codes) develops "commitment" in people, in the sense that "knowing a man's codes – that is, being aware of his 'character' – we can reasonably foresee what he is likely to do or not to do, usually, under a variety of circumstances."[47]

From the above it appears that Barnard has a narrow concept of *leadership*: aptitude to "create faith" in participants (reliability of the manager and his conduct); this faith is based on the manager's ability to be responsible and on his ability to respect his private moral codes even in the presence of serious difficulties. We will return to this point later: Sects. 12.4 and 12.6.

8.4.4.4 First Considerations on the Relationship Between Systems of Ethical Codes and Responsibility

If leadership, therefore, was essentially the ability to "create faith," it would be a partial concept because it does not take into account the quality of the codes that have been internalized by the leader.

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is typical of the executive function.

[43] Ibidem, p. 267.

[44] In the opinion of Barnard, they can be very distant from the public codes most accepted by society.

[45] Ibidem, p. 267.

[46] As seen previously, Barnard (1938), p. 259, underlines that leadership fundamentally consists in "the power of individuals to inspire cooperative personal decision by creating faith."

[47] Ibidem, p. 275.

In order to judge the leadership of an executive (that is, his ability to develop cooperation, to coordinate the organization's members, and to make compatible effectiveness with efficiency) the quality of the moral principles, values and, summarizing, the codes of conduct that guide his behavior must be considered. Different principles inspiring the conduct of a manager produce different effects on the structure, on operations, on the "health" of the enterprise, and on the results that it achieves over time.

Suppose there are two managers, A and B, who are inspired by different principles.

Manager A believes in the following. The average organization man does not love his work and therefore his productivity is generally low; he is indifferent to the interests of the company and looks outside for the satisfaction of his personal needs. He does not aspire to take responsibility. The average man is not very intelligent, imaginative, or creative and without initiative. If you want to increase employee productivity it is essential therefore to "make docile" human nature, to direct it and force it to respond to the requirements of organizational roles and the interests of the organization. Consequently, the manager must centralize decisions, making systematic use of authority and analytical control of the conduct of employees to prevent behavior not conforming to the interests of the organization. Docility is obtained, not only with authority and control, but also prevalently with monetary incentives and the introduction of sanctions. The executive, in carrying out his role, cannot take on social responsibilities because his only inescapable objective is to maximize capital value for his shareholders. He achieves this goal with suitable strategies and policies to confront and neutralize the negative forces internal and external to the company. Any behavior of the manager not directed to increase income or share value is not a fully responsible act; the motivations of employees have to be adapted, through a process of socialization, to the objectives and interests of the company.

Manager B is inspired, conversely, by the following assumptions. The average organization man, if the situation is favorable, loves his work, accepts responsibility, is sensitive to company needs, and behaves loyally to the company. Intelligence, imagination, creativity, and initiative are widespread among men. The manager's task is not to centralize decision-making power, to command and control employee conduct analytically, but to create an organizational structure and operational conditions that enable the various members to apply and develop their skills in their work, as well as simultaneously achieving high levels of productivity and satisfaction of the people in organizational roles.

The compatibility between effectiveness and efficiency is primarily developed by creating "rewards intrinsic to work" and merging individual and company objectives by reciprocal adaptation. Management is inspired by the "principle of supportive relationships," the principle of decentralized decision-making, and the realization of high performance targets. Authority is an indispensable coordinating instrument, but should only be used in exceptional cases. The purpose of the enterprise is not the maximization of share value or profit, but to produce and distribute goods and services required by customers, respecting the constraint of economic equilibrium. Taking on the role of manager involves considerable powers of influence inwardly and externally, but also corresponding responsibilities to all participants of the organization, who should be seen as a community. From this arises the problem of leading the organization in a manner conforming to the common good, while striving to overcome personal interests.

It can be seen that the two code systems that inspire the conduct of the two managers are very different.

If A and B strictly respect their codes of conduct, even in very difficult conditions, and if they have the ability to adopt effective strategies to resolve eventual conflicts between the codes, it can certainly be said—following Barnard—that they are both responsible leaders who promote reliability.

However, it is clear that the two types of overall leadership (considering the effects of responsibility and other risks related to the quality of internalized codes) lead, very probably, to different conditions of company "structure" and "operation." They also lead to different short- and long-term consequences, in terms of productivity, of economic and financial results, of satisfaction of individual needs, business continuity, and quality of life within the organization.

In conclusion, the type of leadership adopted profoundly affects the quality of the planning, organization and control functions, and incentive systems adopted to make effectiveness and efficiency compatible. Therefore, it seems essential to consider not only the capacity to be responsible, but also the quality of the codes of conduct of leaders in order to fully and more correctly appreciate the value of their leadership.

The doubts about the interpretation of Barnard's thought on leadership are due to the excessive emphasis placed by the author on responsibility and reliability compared to that assigned to the quality of moral codes. He continually affirms that management and technical capabilities do not create cooperation if there is no responsibility; that responsibility is the strategic basis of the management process. In essence, in Barnard's work, the quality of moral codes remains in the background. Only in the final part of chapter XVII (dedicated to *The Nature of Executive Responsibility*), the author "recovers" the full concept of leadership composed by responsibility and quality/breadth of morality. He underlines that the endurance of organizations "depends upon the quality of leadership; and the quality derives from the breadth of the morality upon which it rests." He also affirms, "foresight, long purposes, high ideals, are the basis for the persistence of cooperation."[48] The author concludes affirming that "high responsibility there must be even in the lowest, the most immoral, organizations; but if the morality of which responsibility relates is low, the organizations are short lived. A low morality will not sustain leadership long, its influence quickly vanishes."[49]

[48] Ibidem, p.282.

[49] Ibidem, p. 282–283.

8.4.4.5 Further Considerations on the Topic

Barnard states that "persons differ not only as to the quality and relative importance of their moral codes, or as to their sense of responsibility toward them or with respect to the effect of incentives; but also because of wide variations in the *number* of codes which govern their conduct."[50] This tends to increase the probability that conflicts arise between the codes and that, consequently, dilemmas result from the need to find strategies to satisfy immediate desires without violating the codes.

These problems, in the opinion of the author, increase in management roles, which are characterized by particular elements of leadership as follows[51]:

1. a managerial role implies a complex "moral state" which is composed not only by private codes of direct derivation, but also by supplementary codes acquired by the owner of the role in the moment he holds the position of executive. This complexity, other conditions being equal, tends to increase conflicts between the codes and the difficulties of neutralizing or reconciling these conflicts;
2. the level of responsibility, understood as the capacity to respect the codes, is generally higher than that required by non-management roles. Since the required level of responsibility is higher, more effort is necessary to be considered reliable by subordinates, by peers, by hierarchical superiors, and by external people linked to organization activity;
3. the increased complexity of the "moral state" and the higher level of responsibility required entail that the manager must have considerable qualities of energy, imagination, ingenuity, and overall capacity; if not, there can be frustration, a decreased sense of responsibility, and the risk of creating inconsistent conduct that undermines reliability;
4. the function of the manager requires "not merely conformance to a complex of morals but also the creation of moral codes for others (in particular subordinates). The most generally recognized aspect of this function is called securing, creating, inspiring, of 'morale' in an organization."[52] According to Barnard, this creative aspect is "the highest exemplification of responsibility."[53]

Barnard insists, however, that the fundamental element of cooperation is responsibility. It is true that, to operate effectively, managers need financial, technological, and organizational skills and in many other fields; but these skills and abilities are not explained or developed "without that sense of responsibility which makes the sacrifices involved a matter of course and which elicits the initial faith in

[50] Barnard (1938), pp. 270–271.

[51] Ibidem, pp. 272–281.

[52] Ibidem, p. 279. The author adds "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."

[53] Ibidem, p. 281.

cooperation."[54] The author recognizes. however, as noted above, that the success and duration of an organization are connected to a leadership that, in addition to being based on responsibility, depends on the quality of the moral codes of the managers that govern it. This is because "the creation of organization morality is the spirit that overcomes the centrifugal forces of individual interest or motives."[55]

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[54] Ibidem, p. 282.

[55] Ibidem, p. 283.

Chapter 9
The Executive Process, Leadership, and the Realization of a Cooperative System: The Theoretical Model of C.I. Barnard

Abstract In this chapter the nature, characteristics, and elements of leadership are specified as well as its influence on the overall management process. The relationships between leadership, the process of management, and qualitative and quantitative business results are also represented in a schematic way.

9.1 Introduction

Barnard's view of the executive process, leadership, and the connection between them can be better interpreted by analyzing his paper on *The nature of leadership* in addition to the book *The Functions of the Executive* (1938). This paper was privately edited by the author in 1940 and reprinted in *Human Factors in Management*, ed. S. Hoslett, Park College Press, 1946.[1]

To facilitate understanding, it also seems necessary to recall some previously expressed concepts. We hope the reader will forgive us for the repetition, but it seemed essential to us, also because the thought of Barnard is particularly complex and can be better represented proceeding in successive phases and, from time to time, recomposing the previous picture. Even the rather complicated prose of Barnard (which has required several re-readings of the original work) has led us to proceed by "successive approximation." We have progressively developed a conceptual system that collects and coordinates the author's ideas, which are sometimes expressed using different terminology, from the various parts of his work.

The present chapter is structured as follows:

– review of what Barnard means by the executive process;
– clarification that the function of leadership is a very special managerial function because it is of a higher order: it shapes the other management functions in relation to the leadership style adopted;
– clarification in schematic form of Barnard's concept of leadership and outline of the elements that generate the leadership ability of an executive: (a) moral codes and assumptions that guide his conduct; (b) personal qualities that develop his force of attraction and trust in him;

[1] This article is taken from Barnard (1970), appendix, chapter III.

S. Zanda, *Building Efficient Management and Leadership Practices*, Innovation, Technology, and Knowledge Management, DOI 10.1007/978-3-319-60068-0_9

– presentation of a model that highlights the relationship between the function of leadership and other management functions, and the incidence of their complementary effect on quantitative and qualitative company "outcome variables";
– summary of the limits of Barnard's thought in the field of the management process and leadership, also referring to the model outlined in Chap. 2.

9.2 Brief Review of the Executive Process and the Integrating Function of Leadership

As we have seen in Sects. 4.3, 4.4, and 7.2, Barnard organizes the management process into the following functions[2]:

(a) *Planning function*

This function requires the formulation and definition of the company mission, of general objectives and the objectives of the organizational units in which the business system can be divided; it also requires the determination of management strategies and tactics to achieve these objectives.

More particularly, the planning process consists of a coordinated system of decisions that move company conduct according to lines established by the top management that controls the organization.[3]

Business decisions, to be rational, must be based on specialized knowledge in various fields: technology, marketing, finance, information technology, accounting, industrial relations, etc. If a company is characterized by a high technological level and management complexity, then these skills are not—and cannot be—held exclusively by those who occupy the top positions, but are widely spread among the various components of the company system. The adaptability of the company and its ability to influence the external environment are closely dependent on the effectiveness of the planning and control systems used, on the type of organizational structure adopted, on the incentive system used, and, of course, on the leadership model that inspires executives in the performance of management functions.

[2] We emphasize that while respecting the substance of Barnard's thought, we have adopted some changes in terminology, in order to make the relationship with modern management studies easier and more obvious and, in particular, with the way in which they interpret the "management process" and how this process is broken down into functions.

[3] Obviously, the process of formulation of objectives and related management strategies has a different scope and importance in relation to the hierarchical level to which it refers. For example, at top-executive level (which is the level mainly referred to by Barnard), the process requires:

1. formulation of the general purposes of the company system (mission);
2. specification of the general objectives for the whole company system, objectives that form the premise for the definition of objectives of the lower-order sub-systems;
3. definition of strategies to achieve the general objectives (in a company, they concern choices of product, market, customers, technology, use of resources, and competitive factors).

(b) *Control functions*

The process of planning—underlines Barnard—is connected to the control function. This is complementary to the direction and coordination of the conduct of the overall company system and sub-systems that compose it. In fact, organization members do not behave in a predictable and automatic way; they have motivations, interests, and particular objectives, which do not usually coincide with those of the organization; often they interpret their role in a personal way. In addition, the external environment is changeable and unpredictable (especially when dealing with large complex organizations and in sectors characterized by considerable dynamism); this entails risks which must be faced by continuous reprogramming and the adoption of management regulation processes to bring about the desired levels of effectiveness and efficiency.

The regulation processes control the organizational system in order to achieve stability and order and to permit the company's continuity and evolution through the introduction of new vital energy: exclusive specialist knowledge, original business models that are difficult to imitate, innovation, creativity, responsibility, and unity of purpose.

(c) *Organization function*

This function creates the organizational structure and information system that produces the raw material for company decisions, to elicit action and to regulate the conduct of the business system and its sub-systems.

In particular, the organizational process develops a system of specialized and coordinated roles in which the tasks and responsibilities to be assigned to individual organizational positions and the relationships that will pass between them are specified in a general and abstract manner. These include hierarchical authority; functional authority; functional consultancy, service, control, and coordination relations; assistance relations (assistants and general staff).

The organizational structure is completed by the information system, which is a necessary tool for the operation of the organization because, as we have said, it feeds the decision-making, execution, and control processes.

(d) *Creation and maintenance of a cooperative system*

This function consists in the acquisition and maintenance of services provided by organization members, making use of incentives and persuasion activity.

(e) *Leadership function*

This function has the objective to direct and guide the organization.

It has been illustrated in general terms in the previous chapter, but must be further analyzed in order to represent Barnard's thought on the subject more systematically.

The creation and maintenance of an effective and efficient organization involves the capacity to adapt the business system to the external environment and requires the establishment of an organizational system (roles and relationships) that operates with high levels of productivity and satisfaction.

The creation of a cohesive and motivated internal group is a highly complex problem, especially in companies of a significant size, with complex organization and operating in a dynamic environment. This is also why, as was seen in Sect. 8.4.4.1, the average organization man has motivations, objectives, information, and specific attitudes that normally do not allow him to comply spontaneously with the interests of the company and to respond promptly to the requirements of organizational roles.

This situation generates significant problems with coordination and a trend towards positive entropy. These consequences are faced through the management process, and especially by the leadership function, which is the most important management function, being strategic and of a higher order than the other managerial activities. In fact, the kind of leadership adopted shapes the content of the other managerial functions (planning, control, organization, incentive, and persuasion system used to realize the cooperative group), thus creating management styles characterized by different levels of productivity, creativity, innovation, cost-effectiveness, and participant satisfaction.[4] It should be noted that the leadership model adopted by top management determines, to a very large extent, the quality of operation of an organization and the level of company results; this model essentially creates the "company climate" and, with time, is imitated by managers at the lower hierarchical levels.

9.3 The Higher-Order Leadership Function that Shapes the Other Management Functions

This theme has been touched on before; but it seems appropriate to return to it to better emphasize certain points and to represent the content and role of leadership in company management more systematically.

Barnard does not devote adequate space to the relations between leadership and the other managerial functions and his observations on the subject are distributed at various points of his work. Therefore, we have tried to reorder the author's thought systematically. The result of our effort can be represented in three points.

1. First, leadership affects and shapes the processes of planning and control because it establishes the philosophy inspiring the management model that determines the distribution/organization of decision-making power (strategic, tactical, and operational) and related company controls.

   This philosophy can have different connotations in relation to the principles that inspire executives about the behavior of the average employee at work and his capacities for decision-making, creativity, initiative, and loyalty.[5]

[4] It should be remembered that according to Barnard the creation of an effective and efficient cooperative system does not depend only on leadership but on a combination of the latter and other executive functions.

[5] These principles are not investigated further by Barnard, who, in essence, merely states that the quality of the codes of conduct that inspire executives and their personal qualities (which, however,

The principles that form the basis of management philosophy help to determine the extent to which an "integrated, pluralistic decision-making system" will be created, and the degree of use of decentralized decision-making favoring self-direction and self-control, and finally the intensity of the process aimed at enhancing specialist skills of employees and their potential imagination, creativity, initiative, and energy.

These factors, evidently, affect the content of organizational roles and their motivating power, and they have considerable repercussions on people's levels of physical and technical productivity and, more generally, on company results. In addition, the type of philosophy adopted will also have repercussions on the extent to which company decisions will be based on authority or on group judgments and control; in the second case, the use of authority will be limited to exceptional cases and there will be systematic use of discussion and the creation of decision-making structures that will enable those with professional skills to actively participate in company decisions. The type of leadership adopted affects, in essence, the degree of "decisional freedom" to be granted to members placed at various levels of the company structure. This decisional discretion can vary widely depending on the management style adopted by executives. It can be almost completely eliminated, for single organizational positions, by making use of analytical determination of objectives that subordinates must realize, specifying managerial policies that they must follow to achieve the objectives and introducing procedures and analytical provisions that regulate company processes by excluding decisional freedom more or less significantly.[6] On the contrary, starting with participatory philosophies, decision-making structures can be created that leave wide freedom of decision to the various specialists in the company, within a framework of effective coordination.

Among the codes of conduct that define leadership, there is also one that concerns the way in which the executive interprets the general purposes to be assigned to the company. This code is very important, especially in relation to enterprises. If two managers start from different premises on this subject, there will undoubtedly be different effects on planning and control processes and the incentive policy to be adopted to make effectiveness and efficiency compatible. If a top manager believes that the company is an instrument in the exclusive service of the shareholder and that his job as an executive is to maximize share value without any consideration for other *stakeholders*, there will be a particular approach to planning, control, and the incentives processes to be used to induce people to cooperate. There will be very different situations if the top manager starts from different assumptions on the purposes of the enterprise and on the executive's role: for example, when the executive moves from the conviction that the firm has the production of goods of services desired by customers as its *pri-*

are analytically commented on) influence the management styles, which, in turn, shape the other management functions. On this point, see Chap. 12 of this work.

[6]The exclusion of such discretion means, in essence, deliberately not to make full use of the specialist knowledge of the various subordinates and their potential initiative and creative energy.

mary mission, then its role is to ensure the survival and development of the enterprise. It must then satisfy customers continuously as a priority and must distribute in a balanced way "what comes from customers" among other groups interested in the company's results. In other words, the effects on management and on company results are certainly different if the executive considers that his role is to manage in pursuit of the objectives of company continuity, creating value for all stakeholders (also considering the position of the customer as primary, being the source of value). He assumes, in this case, an "organizational personality" and a series of responsibilities, in relation to which he administers the company, creating a *dynamic balance* between effectiveness (interests of the organization) and efficiency (motivations and interests of individual participants).

2. In second place, the leadership style adopted influences the organizational system: organizational structure and content of roles; relationships between roles; information and communications system; operating procedures and rules of operation of company processes. The style depends on the moral codes of executives and their personal qualities. The codes include the principles of conduct that inspire their management philosophy and, in particular, their assumptions about the following topics:

    (a) conduct of employees at work; their attitudes towards the interests of the organization; decision-making capacity, creativity, initiative, and loyalty of subordinates;
    (b) level of centralization/decentralization of the decision-making process and relative degree of decisional discretion to agree with organization members;
    (c) the extent of the use of authority and analytical control of the various members to avoid conduct not corresponding to the requirements of organizational roles;
    (d) the interpretation of the role of the executive in relation to the determination of general purposes to be assigned to the company and coordination of the requests of multiple stakeholders.

3. In third place, the different leadership elements highlighted above (which will later be presented in a more schematic and systematic way) also influence and shape the activity to acquire and maintain the contributions made by organization participants. This is done by using an incentives system and putting in place adequate persuasion activities to develop cooperation, while respecting the company's economic equilibrium.

The balance between effectiveness and efficiency (understood in Barnard's sense) and the extent of this balance depend largely on the leadership style. This style ultimately influences the overall management process and, therefore, it has repercussions on the organizational climate, on the satisfaction of the motivations of participants and on the "outcome variables" (economic, financial, performance variables, etc.).

9.4 Systematization of Barnard's Thought on the Nature of Leadership and Its Elements

9.4.1 Introduction

This theme was dealt with in Chap. 8. In the following chapters, we will summarize the concepts already expressed and we will interpret Barnard's concept of leadership integrating them with other new elements.

The function of leadership, as has been stated many times, is the strategic management function that shapes all other management functions, integrating and coordinating them. The management process is therefore inspired and directed by the type of leadership adopted by executives and, above all, by the management models of top executives. Thus—as Barnard observes—the creation of the cooperative system and the fulfillment of the principles of effectiveness and efficiency are not the result of leadership alone, but the combination of leadership and the other management functions.

Leadership directs the company body; it is the catalyst of efforts and energies, and inspires the decisions of participants to collaborate.[7] Cooperation is stimulated by creating "faith" in the leader, in the validity of their roles, in the superiority of the common goal shared. The power of attraction depends not only on "faith." It also depends on the fact that the real leader (effective and efficient) is perceived by subordinates and peers, as a "growth instrument," as a source of operational support and, especially, as a tool to fulfill their needs. This is in relation to the quality of his "moral codes" (and in particular to his interpretation of the role of executive) and personal qualities demonstrated in the field.[8] These two pillars, trust and the real possibility of "growth," develop the acceptance of the manager, legitimizing the role and its influence.

More precisely, leadership is based on two groups of elements:

(a) the "moral system" or "system of moral codes" of the leader which directs his conduct (organizational leadership);
(b) the "personal qualities" of the leader effectively demonstrated in his work (personal leadership).[9]

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[7] See Barnard (1938), pp. 258–259.

[8] This is a "broad interpretation" of Barnard's thought, developed in the light of systematic consideration of his work.

[9] The approach is slightly different, but only in form, compared to that of Sect. 8.4.4.3. This is due to the need to follow the evolution of Barnard's thought also taking into account his work published in 1946.

In essence, in the fundamental work of 1938, the author points out that the personality of the effective executive is qualified by the presence of two main elements: moral complexity (presence of various private moral codes and a meta-code to resolve conflicts between codes) and a high sense of responsibility (ability to comply with the moral codes, showing tenacity, determination, and in particular, firmness and consistency). Both elements (but Barnard emphasizes the second) develop the sense of trust and security in individuals who are in contact with the leader. In the work

9.4.2 The System of Moral Codes

The "moral system," as mentioned in Sect. 8.4.4.3, consists of a set of private codes of ethics deriving from various sources of influence and which relate to particular areas of reality: they are religious, political, patriotic, family, citizenship codes, etc.

As already noted, in our view, these moral codes should also include those that relate to the management of organizations, that is:

- assumptions/beliefs about the behavior of employees at work; the use of authority and analytical control of employees; the centralization or decentralization of decisions; the possibility to rely on self-direction and self-control, on group decisions and control;
- assumptions which inspire compatibility between effectiveness and efficiency, that is whether to favor the *principle of socialization* (adaptation of the motivations of employees to the interests and objectives of the company) or the *mutual adaptation* of company and individual objectives;
- assumptions on the general purposes of productive organizations (this concerns especially top managers): sharing the theory of the "maximization of share value,"[10] or propensity for the "coalitions theory" that regards the company as a coalition of interest groups governed by managers, who, assuming an "organizational personality," play a mediating role between the stakeholders: company management in this case, is based on the model of *stakeholder value* (value creation for all the various interest groups, however, considering customers the priority, on whose satisfaction the survival and development of the company depend).[11]

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of 1946, Barnard refers to two groups of elements: (a) the system of private moral codes and strategy for resolving conflicts between them; (b) personal qualities of the leader, which are classified in order of importance as follows: (1) vitality and resistance; (2) determination; (3) power of persuasion; (4) responsibility; (5) intellectual capacity. The author clearly reduces his emphasis on responsibility, which, in the past, he considered the cornerstone of leadership.

[10] In this way the *contractualistic conception* of the enterprise is embraced, which considers this type of productive organization as a network of contracts between owners and the other *stakeholders.*

[11] More precisely, with the *shareholder value* approach (contractual theory) company management is inspired by a single objective: the maximization of share value and profit for shareholders; it responds to opposing internal and external forces (stakeholders different from owners) in order to neutralize them as far as possible. The viewpoint of managers is generally projected in the short term and business is considerably financialized; often the principle of business continuity is not respected because mergers, spin-offs, and break-ups are considered functional to the maximization of shareholder value.

With the *stakeholder value* approach, the company is seen, instead, as a coalition of stakeholders; the manager's role (at a high level) is seen as that of the mediator of the various needs of groups that formulate expectations; these are all taken into account: value is created for all stakeholders, however, considering that the primary purpose of a business is the creation and sale of goods and services desired by customers. The proceeds arising from sales are the basis to meet the expectations of the other stakeholders; their requests must be integrated, mediated, and fulfilled congruously to ensure the maintenance of the cooperative team. In essence, the objective of the

The list is not exhaustive.[12]

The "moral state" of an executive is normally very complex, depending on his previous experience in various human contexts and his sensitivity and attention capacity. The complexity level increases as soon as he takes on the role of manager. Immediately he becomes responsible for many "supplementary codes" related to the role played and tends to internalize and recompose them in the context of his personal moral codes system.

When an executive holds a leadership position, he tends to take on an "organizational personality" that can be very different from his "individual personality"; it is a new personality connected with the responsibility to play the role of "trustee" who must "organize," mediate, and reconcile the interests of the various stakeholders, and, in particular, company needs with employees' objectives; he must find a valid strategy to reconcile effectiveness with efficiency.

According to Barnard, senior executives (and particularly those who exercise real powers of control) are characterized by a complex system of moral codes and a very high level of fiduciary responsibility. They are also obliged to "create moral principles for others": and—in his opinion—this is one of the fundamental responsibilities of the management function, or rather the defining characteristic of the role of an executive.[13] This function—according to the author—is crucial to develop favorable attitudes and feelings of loyalty towards the organization and has the ultimate objective of "subordinating individual interest and minor dictates of personal codes to the good of the cooperative whole."[14]

Barnard, it should be remembered, states that the more numerous the moral codes and the more complex the "moral system," the more numerous are the possible conflicts between the codes. The able executive must therefore solve this problem and have a strategy for its solution. By simply outlining the substance of such a strategy, we believe that Barnard has in mind a super-code (which could be called a "*meta-code*") that can be a factor that helps solve the dilemmas that arise from eventual conflicts between the codes. Therefore, the consistency and reliability of the

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executive on this hypothesis is multi-dimensional: there is, however, a primary objective and various secondary objectives that represent constraints.

[12] We emphasize that the assumptions that express the philosophy of the executive are not deepened by Barnard. He touches them and intuits that they are important. He takes a position only on certain assumptions: for example, about the general purposes to be assigned to the production company (it is not profit, but the production and sale of goods and services).

[13] Cfr. Barnard (1938), pp. 272–281.

[14] Ibidem, p. 279. Here we would have preferred the words "reconcile the interest" or "merge/integrate the interest" in place of "subordinate the interest." No doubt, the objective of the manager's role as conceived by Barnard is correct: to make compatible effectiveness with efficiency. However, according to our interpretation of the author's work, his proposed means to realize this objective suffer from "the influence" of Taylor and the current of human relations of the 1930s. Such means are based on the desire of managers "to make human nature docile" and to use the method of socialization and not that of fusion in order to realize the aforementioned compatibility. It relies too heavily on incentives extrinsic to the work of employees (the so-called hygiene factors) and does not propose the creation of roles that allow the simultaneous satisfaction of the company's interests and those of the individual members of the organization.

leader are related not only to his respect of his own moral codes, but also to his access to a meta-code, that helps resolve conflicts, in order to preserve consistency of conduct.

Now we come to point (b), namely the "personal qualities" of the leader which is the second pillar of Barnard's leadership theory.

9.4.3 Personal Qualities of the Leader

Barnard argues that the strength of leadership is correlated with the quality of the manager, with the characteristics of the group that he leads and the conditions of the environment in which the management activity takes place.[15] To make a leader emerge, three elements are relevant, although, in his opinion, the predominant element is the organization of people.[16]

According to the author, five active qualities (in addition to the complex moral system previously discussed) characterize leaders.[17]

1. *Vitality and resistance*. They do not coincide with good health, but rather with energy, responsiveness, passion, dynamism, flexibility, and the physical and psychological resistance to face internal and external forces. These are aptitudes that promote incessant acquisition of experience and knowledge, which is the basis of an extraordinary personal capacity for leadership. In particular, vitality is an attractive quality or personal strength, which is a great help in the power of persuasion.
2. *Determination*. This is the ability to take the decisions necessary for the operation and evolution of the company system and their sub-systems in a determined but conscious way. Decisions, clearly, must be compatible with the powers conferred by organization rules. Without swift, clear, and appropriate decisions, the company system is doomed to failure. Indecision and the slowdown of the decision-making process do not produce a positive effect, either on company results, or on the enthusiasm and passion of the various participants.
3. *Persuasiveness*. This is the ability of the executive to influence people. Without this aptitude—according to Barnard—the other skills can become ineffective.[18] The author maintains that it is one thing to say what should be done and something completely different to get others to do it.

   A potential act is external to the organization and it is the task of leaders to change the potential into the substance of action. In other words, in the view of Barnard, an important thing that leaders do is to induce people to convert their

[15] Cfr. Barnard (1946).

[16] Later scholars took up this concept: for all, see: Galbraith (1967).

[17] Barnard (1946).

[18] Barnard (1946).

skills into coordinated effort. This is the task of persuasion.[19] Theoretically, there are many modes of persuasion to coordinated action. They vary from setting an example "of being the best" or calm equilibrium that inspires trust, or fervent oratory, or promising financial bonuses, prestige, position, glory, to threats and coercion.[20] The variation of these methods depends—according to Barnard—on the personal qualities of leaders, on the characteristics of organizations and context conditions. On this topic, we see the author, to some extent, influenced by the tradition of Taylor, according to which effective management consists in "making others do certain things" and inducing people to respond to the requirements of organizational roles, "making human nature docile" with material or immaterial incentives and often, through coercion, using authority and analytical control of employee behavior. We will return to this point later. Note that Barnard also advises against the systematic use of authority which, in his opinion, should only be used in exceptional cases.

4. *Responsibility*. This subject was extensively discussed in Chap. 8 and therefore reference should be made to it. Barnard, in his fundamental work *The Function of the Executive*, of 1938, considers responsibility the cornerstone of cooperation.[21] In the paper of 1946 on *The Nature of Leadership* instead, he slightly reduces its importance, attributing to it an inferior role compared to vitality, resistance, determination, and the capacity to persuade. However, responsibility remains an important element of Barnard's model of leadership. The author states that if the ideas of an executive and his way of feeling concerning what is right are known to the counterparties with whom he interacts and if he duly respects his code of conduct in the exercise of his functions, then his behavior is judged responsible. This fact tends to develop the trust of others towards.[22] As has been seen previously, responsibility is fully "feasible" if the leader, in addition to the attitude of respecting his moral codes, has a "meta-code of conduct" so that, in the presence of a conflict between codes, he can overcome inner moral tensions and solve problems, maintaining consistency of behavior. This consistency is the element that determines and consolidates his reliability. This reliability, in turn, helps to inspire in others the decision to cooperate in the organization environment.[23]
5. *Intellectual capacity*. This is considered by the author of great importance for the exercise of leadership, although, in his opinion, it is not sufficient to create and maintain good leadership. All things being equal, for the author, intellectual capacity is a differential factor that can contribute to the success of the company especially in a socio-economic context characterized by the use of technologies and specialist knowledge. It is important both for the survival and growth of productive organizations, and to develop business models characterized by

[19] Barnard (1946).
[20] Barnard (1946).
[21] Barnard (1938), chap XVII.
[22] Cfr. Barnard (1946).
[23] Cfr. Barnard (1938), p. 259.

uniqueness (exclusivity) and the difficulty of imitation by the various competitors. Barnard believes, however, that intellectual capacity does not necessarily assume a level of primary importance for leadership, because the leader does not so much have to develop innovations personally (through direct, creative, intellectual processes), but, above all, must organize, guide, and coordinate the specialists in the organization in the process of creating new knowledge. Of course a creative leader also equipped with specialist skills tends, other things being equal, to show superior leadership.

On this subject, it seems appropriate to make some brief further remarks.

The systematic application of science and technology, the continuous and unpredictable change that characterizes the markets in which companies operate, and the size and "rigidity" of investments require that the company's decision-making processes are based on specialized knowledge and broad and diversified information. This implies not only the inclusion in the organizational framework of a set of people with specialist skills, creativity, and imagination, but also involves the need to create an integrated decision-making structure. Leaders, therefore, should strive to stimulate specialized teams to use their skills in the best possible way; they must also direct, coordinate, and help them to solve their problems. However, everything is much easier and more effective if they have the appropriate technical skills and intellectual capacities to manage relationships with the specialists.[24] Leaders (especially if they do not have an adequate staff) should have the knowledge and ability to identify the right questions to ask their subordinates, and to be able to consciously evaluate their answers.[25] Finally, the possession of specialist knowledge and intellectual capacity of a general type improves the quality of leadership, because, other things being equal, employees perceive higher leadership standing. As mentioned previously,[26] research conducted by the Institute for Social Research at the University of Michigan has shown that the relationship between the leader and his subordinates improves if, among other things, subordinates trust they will receive fair treatment and if they perceive they are being led by competent leaders: it is highly unlikely that an employee expects to be evaluated and rewarded in a fair and objective way if his leader is incompetent; in these cases, he generally feels the need for security, which in the Maslow scale, is a priority motivation compared to others.

Barnard argues that the five "personal qualities" of the leader outlined above are probably not exhaustive. In addition, he indicates that, in theory and in practice, others are often listed that are substantially included in the five qualities or some combination of them or a derivation. However, among the commonly cited categories—in his opinion—the following may be added to the list: honesty (or character), courage, and initiative.

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[24] The knowledge and capacities of leaders could also be integrated by giving them staff personnel. In fact, this is precisely what occurs in large companies when they institutionalize positions of *general staff* and *personal staff* (*personal assistants*).

[25] Cfr. Katz (1974).

[26] See Sect. 8.4.4.2 of the present work.

The author stresses that all the qualities described above are interdependent and interacting, and, in his opinion, one can suppose that different combinations of quality produce entirely different types of leaders and that the qualities and their combinations change with experience and conditions..[27]

9.4.4 Summary of Barnard's Thought on the Relations Between the Executive Process, Leadership, and a Valid Cooperative System

We come to the final summary of our interpretation of Barnard's model of the relations between the management process, leadership, cooperative process, and company results.

As seen previously, the company is a complex socio-economic system, oriented towards general purposes. Its behavior is rational if its constituent elements and business models are planned, organized, guided, and regulated in order to create and maintain a cooperative system that combines effectiveness and efficiency understood in Barnard's sense.

In particular, the business system is regulated to make it constantly cohesive, to make it realize certain levels of order and stability, and to enable development, also using strategies that bring the organization new energy (new expertise, innovation, creativity, etc.).

According to our interpretation of Barnard's thought, the creation and maintenance of a cooperative company system able to achieve the objectives of survival and development depends on the existence of a valid executive process. This can be subdivided into two main components:

(a) *basic managerial functions*, which create the structural conditions and develop the management process. These functions, as has been seen several times, are the following: strategic, tactical, and operational planning; control; organization; acquisition of the services of participants through a system of incentivization and persuasion;
(b) *leadership function*, which is based on two components: (b1) moral codes that inspire the leader's conduct; (b2) personal qualities of the leader.

Leadership (see in particular Sects. 9.2 and 9.3) is a higher-order management function that shapes the other managerial functions listed under a).[28]

[27] Barnard (1946).

[28] Barnard states: "The limitations imposed by the physical environment and the biological constitution of human beings, the uncertainties of the outcome of cooperation, the difficulties of common understanding of purpose, the delicacy of the systems of communication essential to organization, the dispersive tendencies of individuals, the necessity of individual assent to establish the authority for coordination, the great role of persuasion in securing adherence to the organization and submission to its requirements, the complexity and instability of motives, the never-ending burden of

The leadership styles adopted, in addition to shaping the basic managerial functions, directly influence the "*power of attraction and motivation*" of the leader. The extent of this phenomenon depends on the extent to which the leader is capable of:

– inspiring feelings of community and cooperation in organization members;
– arousing admiration, emulation, and trust in participants;
– being perceived by the various members as an "instrument of growth," as an active source of operational support and potential satisfaction of their motivations. Finally, the power of attraction and motivation of the leadership function, combining and working systematically with the organizational structure and operating conditions determined by the management functions referred to under a), affects the qualitative and quantitative "outcome variables."[29]

The influences on outcome variables can be summarized as follows:

– the level at which a cooperative socio-economic system is developed and maintained, characterized by shared objectives and a sustainable equilibrium between effectiveness and efficiency, linked to the achievement of a satisfactory quality of life within the organization[30];
– the extent to which it is possible to realize *effectiveness* (economic and financial results; indices of physical and technical productivity; sustainable economic equilibrium; survival; dimensional growth; etc.) and *efficiency* (adequate satisfaction of the motivations and objectives of the participants).[31]

The conceptual construction of Barnard is represented below (Fig. 9.1) in a synthetic diagram in which the various components of the executive process (including leadership) and their influences on the "outcome variables" of the company are connected systematically.[32]

decision – all these elements of organization, in which the moral factor finds its concrete expression, spell the necessity of leadership, the power of individuals to inspire cooperative personal decision by creating faith…Nevertheless, to suppose that leadership, that the moral elements, are the only important or significant general factor in organization is as erroneous as to suppose that structure and process of cooperation without leadership are sufficient. Either view is out of accord with reason and experience." The author therefore concludes that the success of a company, namely the development of cooperative activity, depends on both the structure (organization) and operation elements, and the quality of leadership; leadership, in particular, creates faith, sets in motion the company system and is the catalyst that stimulates the process that creates and maintains lasting cooperation. Barnard (1938), p. 259.

[29] This incidence can be analyzed in the short and medium to long term.

[30] It is possible to create indicators to evaluate the extent of these phenomena or at least to appreciate, with reasonable reliability, their tendency over time (improvement, stability, deterioration).

[31] In addition, to judge the efficiency level (in Barnard's sense) it is possible to develop specific indicators to detect, with reasonable certainty, the tendency of the variables that express "organizational health."

[32] For further analysis, see Zanda (2016), pp. 649–657.

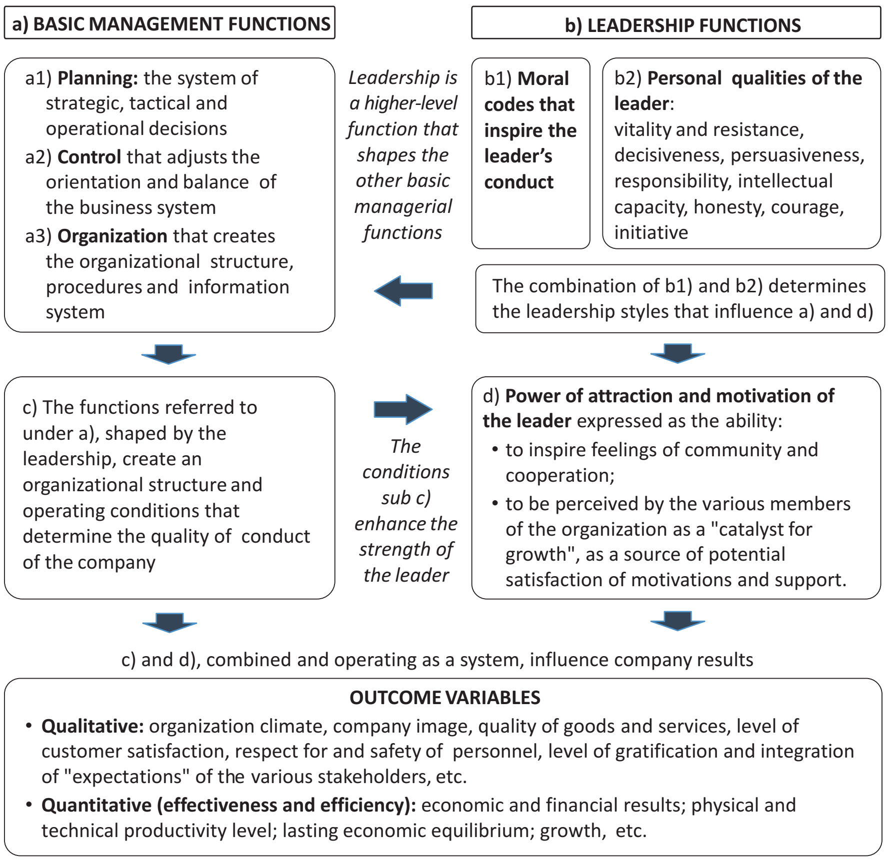

Fig. 9.1 Management process: its components and their influences on company results

9.5 Some Critical Remarks on Barnard's Theory of Leadership

In this section we will limit ourselves to indicating the elements neglected or not sufficiently clear in Barnard's leadership theory. The comments on the topic will be postponed to Chap. 12 in which the analysis will deal not only with the function of leadership, but also with the wider management process of which leadership is an integral part.

Our main critical comments on Barnard's theory of leadership can be summarized as follows:

– the author does not devote adequate space to discussing relations between leadership and the other management functions. In particular, he does not sufficiently explain how different leadership styles can influence the content and quality of the other management functions;

- Barnard's insistence on "responsibility" and on the fact that without it, management and technological capacities cannot create a valid cooperative system neglects the importance of the role of "systems of ethical codes and of management principles" that guide the conduct of executives. This fact can puzzle the casual reader who interprets Barnard's theory of leadership unsystematically;
- the classification of "codes of conduct" does not appear complete, because there is no specific mention of some principles that can guide the management philosophy of executives and that are important to understand the quality of leadership in organizations;
- it lacks adequate discussion of the "quality" of the codes that can inspire management philosophy; it lacks an indication on the validity of the different possible styles of leadership in terms of effects on "organizational health" and "outcome variables";
- Barnard's underlying philosophy on the construction and maintenance of a cooperative system aimed at achieving lasting compatibility of effectiveness and efficiency is difficult to interpret. It is not clear, in fact, if the author tended towards a philosophy based on the "socialization process" (in which the motivations and objectives of people gradually adapt to the interests of the organization) or a "process of integration by mutual adaptation" between the individual and company interests. Barnard's *theory of cooperation* involves "a system of induction to collaborate" based on two methods: (a) method of objective incentives (specific and general) and (b) the method of "persuasion" (coercion by authority, rationalization, and inculcation of new motives). The doubts about the interpretation of the content of the author's management philosophy derive mainly from two factors: (1) most of the objective incentives do not lead, in our view, to "motivational rewards intrinsic to work" because they are "hygiene factors" and not "motivating factors"; (2) Barnard insists on the method of persuasion (especially on the rationalization and inculcation of motives), to such an extent as to give the impression that, at the base of his management philosophy, there is mainly the principle of "making human nature docile" to induce it to respond to company interests (socialization process).[33]

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[33] On this subject, see Chap. 12 of the present work.

Chapter 10
Summary of the Present Work

Abstract This chapter summarizes the contents, the essence of each chapter to highlight the logical structure adopted in the sequence of chapters, and introduces Chaps. 11 and 12.

As explained in Chap. 1, our objective is to analyze the thought of the author in order to examine its originality and current relevance. To this end, in Chap. 2, an effective and efficient management model was developed (fruit of the analysis of modern studies in economics and business management) to serve as a benchmark in order to assess the relevance and utility of Barnard's scientific contribution in reference to the needs of the knowledge-based economy.

In Chap. 3, the economic, social, and cultural environment in which the author's theories matured was described. The main stimuli that, most probably, influenced his thinking were highlighted:

(a) the inadequacy of economic studies (classical, neoclassical, and the theories of imperfect and monopolistic competition) in explaining the behavior of companies and how they are actually managed in a realistic way;
(b) the progressive decline of "utilitarian individualism" in favor of a "moral foundation of society": individualism retreats with the advance of the philosophy of empathy, the company understood as a cooperative organization united by a system of moral principles;
(c) the advent of "*managerial capitalism*" that brings to the fore, in companies and society, the *non-owner* manager, thus going beyond the traditional ownership-labor dichotomy; this form of capitalism emphasizes the *scientification* and the *professionalization* of the company management functions, and the need to develop organizations that know how to position and coordinate people with specialist skills;
(d) the significant economic and financial results produced over time by the capitalist system, even if accompanied by severe recurrent crises. Facing these crises has stimulated the intelligence and imagination not only of general economists, but also managers of large enterprises.

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In Chap. 4, Barnard's thought on the management process was interpreted. It was found that the author's approach is systemic: the concept of system is used as the basis for the development of his management theory. Apart from some differences in terminology, the management functions adopted by Barnard are very similar to those recurrent in modern management theory; indeed, as has been emphasized several times in this work, the author seems a precursor of subsequent theoretical developments. What really is original in his model is the relationship between the set of management functions (management process) and the function of leadership. The two concepts should not be confused: the function of leadership is also a management function; but it is a special function of the management process, and models and shapes the other management functions: determination of company objectives (planning); control; organization; creation and maintenance of a cooperative system.

In Chap. 5, two management functions were examined: one that leads to the formulation of company objectives and the other that creates the organizational structure and communications system. The approach followed by the author is "holistic": the company system is considered as an integrated whole and both its constituent elements and the relationships between them are analyzed simultaneously. All companies, especially large ones, appear as complex socio-economic organizations, characterized by a pluralistic, integrated, and unified decision-making system, aiming at the realization of their mission. The concepts of organizational structure and communications system presented by the author are modern and enlightening; in our opinion, they have significantly influenced subsequent studies of organization and organizational behavior and some developments in the theory of the firm.

In Chap. 6, the theory of authority developed by Barnard was discussed. It is well known that this theory is a milestone in the development of studies on the organization and management of for-profit and non-profit companies. The author states that authority cannot be fully understood without the so-called subjective aspect: the assent of the individual receiving an order is essential to confirm the "authoritative character" of the communication received. However, Barnard says that also "the objective aspect" of authority is of great importance for executives and scholars, because it concerns the organizational structure and, in particular, the control lines, which have the task of holding together this structure, to create order, stability, and coordination of management and operational processes. This approach demonstrates how Barnard paid great attention to the concrete problems of organizations, even if it was to be expected, given his experience as a top manager of a large US corporation.

Later, in Chap. 7, we analyzed the problem of creating and maintaining a "sustainable" cooperative system. Gradually, as empathy, propensity for the common good, and respect for people have increasingly formed the solid basis for a moral foundation of human organizations in society and as these values have opposed and limited utilitarian individualism, the collaborative spirit and a desire to participate have strengthened. The awareness of the superiority of the advantages of cooperation (which permits the overcoming, or at least, the attenuation of individual physical, rational, and economic limits) stimulated the creation of human organizations consisting of a set of people with particular motivations and objectives, but unified and coordinated by a "common feeling." This led to the problem of reconciling company goals and objectives with those of individuals and of the various groups involved in operational activities. The real difficulty is to guide, direct, and coordinate the human organizational system towards a unifying general purpose. Barnard's thought is very enlightening in this regard, and for him the basic problem is the need to reconcile dynamically, effectiveness (company interests) and efficiency (satisfaction of the needs and objectives of organization participants).

The author also finds the solution to this problem through the introduction of a system of incentives provided by the company, and through careful and cautious persuasion activities aimed at inducing people to collaborate and provide satisfactory performance. The choice of stimulus tools—states Barnard—is not a perfectly rational activity. In this matter, the managers' decisions are defined according to a *limited rationality model*. However, according to the author, the choice of stimulus factors must be inspired by the following fundamental principle: the cost of the incentives and the activity of persuasion cannot exceed the value of the contributions made by participants. Balance is necessary.

Interpreting Barnard's thought as a system, it can be seen that the compatibility between the objectives of the company, on the one hand, and individual motivations and objectives, on the other, is facilitated if the overall goal of the company is defined as producing and selling goods and services desired by customers, respecting economic equilibrium defined according to the type of company.

In Chap. 8, the research focused on effectiveness and efficiency. It must be underlined that these two phenomena, which form the basis of cooperation, are not spontaneously convergent and their equilibrium is the effect of a systematic management process, inspired and shaped by the quality of leadership.

Chapter 9 is the heart of this research, where Barnard's thought regarding the management process and leadership is interpreted as a system.

As explained in the previous pages, the author's thought on these issues is very complex and detailed; however, it can be recomposed to reveal his general opinion, by organizing the statements made and the principles developed in various parts of his work. In Chap. 9, in particular, the nature, characteristics, and elements of leadership are specified as well as its influence on the overall management process. We also present a model that highlights the relationship between the function of leadership and other management functions, and their complementary effect on quantitative and qualitative company results.

In Chaps. 11 and 12, our conclusions are presented on Barnard's theories on the management process, leadership, and the creation and maintenance of a cooperative organization.

Chapter 11
The Relevance of Barnard's Theoretical System to the Economic, Social, and Moral Requirements of the Current Knowledge-Based Economy

Abstract This chapter analyzes the relevance and originality of Barnard's thought in relation to the economic, social, and moral requirements of the current knowledge-based economy.

11.1 Introduction

This chapter and the next present the conclusions of our work on the theories of Barnard on the management process, on leadership, and on the creation and maintenance of a cooperative organization.

These conclusions are the answers to the "research questions" formulated in Chap. 1, concerning the originality of thought of the author in the light of the requirements of a modern knowledge-based economy.

11.2 Brief Reference to the Characteristics and Needs of the Knowledge-Based Economy

As seen in Chap. 2, in the last two decades of the twentieth century, there were changes that will most probably affect the management of companies in future and, more generally, the whole of society. They were changes inside the "revolutionary capitalist system" connected to the so-called Third Industrial Revolution and to the need to control some new "knowledge" that appears essential to successfully manage enterprises. In this way, a new economy based on the possession of "knowledge" became the strategic factor in the management, survival, and development of enterprises. The new economy is emerging at a very slow but continuous pace. Essentially the intangible factor "knowledge" is influencing the behavior of institutions, and in particular, the management of organizations.

The main factors that have stimulated the knowledge-based economy can be summarized as follows:

(a) development and use of new scientific and technological knowledge which creates significant technological and organizational discontinuity with the past.

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It is a body of knowledge that essentially concerns ICT and biotechnology, artificial materials, microelectronics, telecommunications, advanced robotics and cybernetics;

(b) more widespread use of the multimedia digital network;
(c) change in types of transaction that take place in the market;
(d) the pre-eminence of the production of innovative services and the emergence of "light companies" which reduce investment in fixed capital;
(e) the adoption of marketing policies to achieve lasting business relationships with individual customers;
(f) development of innovative and cost-effective business in the field of culture: the use of creativity, imagination, and new scientific and technological knowledge in the production of communications, sensations, experiences, emotions, and socialization processes much appreciated by customers.

The factors listed above now make it necessary for enterprises in innovative sectors to acquire a system of specialized knowledge in various fields: technology, marketing, supply, etc. These developments also require them to have skills in organization and strategic management to coordinate the specialized knowledge synergically.

The knowledge-based economy develops the so-called intellectual managerial capitalism that influences the organizational structure of companies, management styles, and business results.

As we saw in Chap. 2, in this new economy, top managers tend to be autonomous with regard to the interest of capital and free to pursue balanced goals of profitability, growth, and social responsibility. In the new economy, there also seems to be a new cultural environment slowly forming that favors the awakening of people's consciences and especially those of managers:[1]

In the same chapter, a management model was developed (based on the needs manifested by the knowledge-based economy), which can serve as a benchmark to assess the originality, the current relevance, and usefulness of the theory of C. Barnard on the management and leadership process.

11.3 Barnard's Lessons for Scholars and Executives of the Modern Age

11.3.1 Premise

Barnard has provided scholars and executives with a very useful system of theoretical principles and constructions for the management of complex organizations. In addition, in our opinion, his theory of leadership offers a valid contribution to the need to give the managerial profession a moral foundation.

[1] See Zanda (2012), chap. 11.

For a long time in organizations and enterprises, people have learned to develop the physical sciences and the various technologies very well, but have not been able to develop and adequately use the sciences related to the management of men and their motivation. In today's knowledge economy there is still the need to develop and apply a "general theory" of company management that creates not only an adequate basis for the conduct of the technical-economic part of the executive role, but that also develops solid ethical principles to give a moral foundation to the profession of the manager. This foundation has been overshadowed by some still dominant economic theories. Barnard, basing leadership on a system of moral codes of executives, has helped to combine economic rationality with ethics and to recover the concept of company as a community.

The company system is efficient only when those who govern it are capable of developing cooperation, pursuing primarily the general interest, reconciling the expectations of the various participants in the organization, creating and maintaining conditions of lasting economic and financial equilibrium.

As we made clear in the previous chapters, the main lessons of Barnard are distinguished by their originality, conceptual validity, and current relevance, and are still very useful to scholars and the executives of modern organizations. They are summarized in the following sections.

11.3.2 The Systemic View of Management and Leadership: An Attempt to Develop a Unifying Conceptual Framework for the Structure and Behavior of for-Profit and non-Profit Organizations Based on the General Theory of Systems

Barnard can be regarded as one of the precursors of the application of the *general theory of systems*[2] to the management process of complex organizations.[3]

The concept of the system is a fundamental pillar on which his management theory rests. Barnard started from the deep conviction that organization, decision-making and control processes, management activities, the function of executives, and the goals of companies should be studied "holistically." Real understanding of the operation of the company system required both the analysis of its single elements and the study of the relationships between the internal elements and between the company system and the external environment. This approach allowed the author to perceive the company as an *integrated whole* and to investigate the relationships between the internal elements and reciprocal influences between the com-

[2] On this topic, we suggest the following works: Ackoff (1960); von Bertalanffy (1971); von Bertalanffy and Rapoport (1959); Boulding (1953) and (Boulding 1956 a and b); Churchman (1971); Huant (1960); Rapoport (1966); Simon (1965), and Wiener (1948).

[3] Wolf (1974), pp. 54 ff.

pany and environment systematically. More specifically, we can assert that Barnard conceived the company as a complex, open, directed system with an executive team that establishes the evolutionary trajectories of management, which creates and maintains a lasting cooperative system and which regulates the operation of the organization in order to permit it to pursue established objectives and to assure its survival and development.

The systemic approach adopted by Barnard led him to consider all types of existing production units, distinguished from each other primarily by the objective pursued, by the manner of distribution of production, by the financing arrangements, by the solutions adopted to spread risk, etc. Barnard is therefore a precursor of the "*general theory of the firm,*" of that unifying conceptual framework that simultaneously takes into account all the organization models to explain the objectives, the structural problems, the activities and process of management in a unified and systematic manner. This theory encompasses both "enterprise theory" (which concerns "the most important productive unit" in the context of capitalism) and the study of other non-profit organization models, based on gifts, solidarity, associations, etc. Barnard moved in this direction,[4] and made an interesting attempt at "generalization," with a view to creating the basis for a unified theory of the firm, which has not, even today, been adequately developed in the economic culture of the most advanced countries.[5]

11.3.3 The Nature of the Management Process and Its Division Into Functions

Barnard's analysis of the management process is still highly relevant. He divides the executive process into the following organic functions: *planning, control, organization, creation and maintenance of a cooperative system, and leadership*. Coordination, in our opinion, is considered by the author, not as an organic function in its own right, but as the *essence*, the objective, and the result of the overall executive process. His writings highlight the contribution of single management functions to create an ordered, cohesive, and unified socio-economic system for the realization of its general aims.[6]

The theoretical construction of Barnard in terms of the content and structure of the executive process is substantially in line with that of the leading scholars of management; yet it seems only right to point out that the author's writings—except for those of H. Fayol—are prior to the contributions of those who form the "hard core" of studies on the management process: Urwick (1944), Davis (1951), Terry (1955), Fox (1963), Longenecker (1964), Koontz and O'Donnell (1968), etc.

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[4] See Barnard (1938), part II, Chapters VII–VIII.

[5] Zanda (2015), p. 43 ff.

[6] See in particular Chap. 4 of the present work.

11.3.4 Organizational and Individual Objectives. The Role of Management in Their Harmonization and Integration

Barnard[7] emphasizes that every organization (for-profit, solidarity or mutuality-oriented, etc.) is a system of coordinated human effort, always projected towards a unifying purpose. Because the organization is a socio-economic system, there is an implicit requirement to have a *common purpose* (which must be communicated and interiorized by the various participants of the organization), to make compatible effectiveness (achieving company interests/goals) with efficiency (satisfaction of the interests/objectives of participants). The distinction made between organizational and individual purposes is particularly interesting; equally interesting is the statement that it is rare that a company objective directly and automatically satisfies personal needs and goals. According to Barnard it is the function of management to try to realize compatibility between these not automatically convergent objectives, using an integrated system of incentives and adequate persuasion to induce individuals to cooperate and sustain strategies and management policies. This process of stimulation and induction is explained clearly by the author. In our opinion, however, Barnard's model is not entirely convincing: it is affected by the management theories of Taylor which dominated the socio-economic scene at the time he wrote. Barnard declares that authority, to be effective, should be accepted by subordinates, and recognizes that to motivate people it is not sufficient to use only material incentives. Despite this, in order to realize cooperation in practice, he prefers the "socialization model" (adaptation of the objectives of participants to those of the company), rather than the "fusion model" (reciprocal adaptation of objectives using a process based on delegation of decision-making, self-control, and organizational restructuring).[8]

11.3.5 Rational Organizational Behavior and the Creation of a Hierarchy of Objectives, Decisions, and Organs: The Chain of Means and Ends

According to Barnard the teleological behavior of a company depends on the coordination of company objectives, which must also be integrated in the sense that those of a higher order (the overall company system objectives) must be a premise and guide for those of a lower order (sub-system objectives in which the organization can be structured). The general end of the company, according to the author, is a synthesis of the decisions that establish the relationships between the company and the environment. It is also the basis for the determination of secondary

[7] See Barnard (1938), pp. 94–95.

[8] For deeper analysis, see Chap. 12 of the present work.

objectives regarding company sub-systems. The specific objectives are derived from the structure of the general objectives and are the means to realize them. From the work of Barnard, it can be understood that companies create a hierarchy of objectives and decisions, namely a means-ends chain that must be respected if the organization is to achieve its mission. This view reminds us of H. Simon's theory on the subject of organizational behavior, which has probably incorporated some elements of Barnard's model.[9]

11.3.6 The Conduct of Complex Organizations Is the Product of a "Pluralistic and Organically Integrated" Decision-Making System

It should be noted that even in terms of decision-making (which determines the overall objectives of the company, operational objectives, and the management strategies to achieve them), Barnard also anticipates the evolution of decision-making structures in the transition from competitive capitalism (dominated by the individual entrepreneur who develops innovations that create profit and the accumulation of capital) to trustified capitalism dominated by large companies, characterized by the need to create an organization that uses the professional skills of the various specialists systematically.

The author points out that in complex organizations characterized by the use of advanced technology and pluralistic knowledge of finance, marketing, accounting, personnel management, public relations, etc., the overall decision-making process tends to be distributed between the various organs of the organizational structure. Decision-making power is not therefore concentrated in the top management but tends to be structured between multiple organizational levels.[10] In other words, there is the creation of a "pluralistic decision-making structure," which, in order to operate rationally, must be "organically integrated" through the activity of executives and, in particular, through the coordination of top management, which is the central unit of organizational government. The rationality of the behavior of the entire company system, Barnard specifies is, however, closely linked to the management process and, in particular, to the quality of leadership. The author's vision of the decision-making structure (and of organizations) reflects neither the conceptions of Taylor and Fayol nor those of M. Weber, which are based on centralizing decision-making and on analytical control of the executors, starting from the assumption that knowledge is (and can only be) concentrated at the top of the organization.

This view of Barnard was also due to the fact that he had as a reference point, the large corporations that characterized the American economic landscape, in which

[9] Simon also, in an interview in 1988, recognized that many of the ideas in his book "*Administrative Behavior*" (1947) were influenced by Barnard's thought and also those he considers "*principal novelties*" are not inconsistent with Barnard. See: Golembiewski (1988), pp. 275–300.

[10] See Sect. 5.6 of the present work.

"managerial capitalism" was establishing itself, which put the organization of knowledge and the specialist skills of personnel at the center.

11.3.7 The Average Person in an Organization Operates According to a "Limited Rationality Model"

Barnard's thought is particularly original on the level of rationality of decision-making processes. He states that the average man in an organization does not act according to an "objective model of rationality" in his decisions to determine whether or not to cooperate and, more generally, in the decisions of organizational roles.[11] This happens because he is unable to perfectly define the problems to be solved; he is unable—with his limited knowledge and the "pressure" of time and cost—to develop all the potential alternatives available to solve every problem he has to face; nor is he able to identify and assess all the consequences associated with each alternative; finally, he is unable to choose the "excellent" alternative according to a well-defined "utility function." In essence, for Barnard, the real "organization man" (and in particular the manager) operates according to the "limited rationality model." In this case, given his lack of knowledge, his limited powers of calculation and, ultimately, his partial knowledge of the "map of objective reality," he must accept only satisfactory and not excellent solutions to problems (as is the case, for example, in economic theories that see "economic man" as the protagonist of decisions). The organization man can still move forward the frontier of rationality, based on experience and the development of a more effective organization that allows him to integrate specialist knowledge, to develop creativity, to create synergies of times and costs. On this subject, the modernity of thought of Barnard is extremely relevant; he anticipates by many years the theoretical construction of H. Simon of the limited rationality model, which realistically describes the behavior of members of human organizations.[12]

11.3.8 The Theory of Authority: Originality and Influence on Scholars and Managers

Authority is one of the main original principles that characterizes the philosophy of Barnard regarding the management process and the leadership. The author begins from the works of M. Parker Follett of the 1920s in which formal authority is represented as the right to command (control) others, legitimized by the organization;

[11] See Sects. 7.2 and 7.5.

[12] It should be noted that Simon's theory of behavior "of administrative man" is more systematic and complete. See Simon (1958).

while power is regarded as the capacity to effectively influence the conduct of others (control capacity). However, Barnard goes further, distinguishing two aspects of formal authority: subjective and objective.[13] On the first point, a communication, in his opinion, has an "authoritative nature/character," if it is accepted by those who receive it as a premise for their conduct. Therefore the *source of authority* resides in "the person receiving the order"; in essence, the *assent* of the individual that receives the communication is indispensable to confirm the authoritative character of an order. Barnard clearly states the conditions that must be satisfied for there to be acceptance. In particular, he underlines that each organization participant is distinguished by a "*zone of indifference*" within which he accepts orders without thinking continually and consciously about the problem of acceptance. The participant, before commencing the relationship with the organization, classifies orders on a scale of *acceptability–unacceptability* and comes to delineate precisely the *zone of indifference* within which orders are acceptable. The range of this area—says the author—depends on the extent to which the incentives provided by the organization exceed the contributions required from the participant by adhesion to the cooperative system.

However, the objective aspect concerns the creation of the lines of authority or command (which Barnard defines as *communication*) that keep the organizational structure united. The company is characterized by a hierarchy of objectives and decisions that must be coherent, coordinated, and harmoniously directed to pursue the general objective of the operating system. To this end, as stated previously, it is also necessary to create a hierarchy of roles, so that higher-order objectives and decisions guide the objectives and decisions of a lower order as a premise.

One of the main forms of organizational influence with which the means-ends chain (of objectives and decisions) tends to be enforced is formal authority. When viewed objectively, this is the right to command and to use human resources and tangible and intangible assets for the realization of business objectives. This is legitimized by the formal organization and attributed to persons with special organizational roles. Formal authority requires the obligation of obedience from the passive subject of the relationship; this relationship is adequately specified in job descriptions, the organigram, and in the company organization manual. Ultimately, authority is the mechanism that creates the hierarchy of roles, so that, as noted above, the higher-order decisions (and objectives) constitute the basis for lower-level decisions (objectives). The control lines, which also represent the lines of communication, constitute the backbone of the organization and form the channels through which most of the information that feeds the decision, execution, and control processes flows. Objective authority is accompanied by the possibility to dispense rewards and to impose sanctions, which are designed to induce people to obey.

It should be specified that Barnard explicitly recognizes the importance of the objective aspect of authority; but he is convinced that the power of an executive is not substantially related to the objective authority conferred on him. He therefore rejects the concept, dear to classical organizational theory, according to which

[13] On this subject, see Chap. 6 of the present work.

authority automatically confers power and that, in any case, there must be correspondence between the measure of authority and the range of responsibilities to be faced. Formal authority constitutes—according to the author—only "potential power"; but the real influence on the conduct of subordinates depends on their acceptance of authority.[14] This acceptance, unlike formal authority, cannot be granted to the executive by a formal act of the organization, but is the recognition he must earn daily through the quality of his leadership and, more generally, through the use of a valid management process.

11.3.9 The Mission of for-Profit and non-Profit Organizations

Another stimulating and original concept of Barnard, which has undoubtedly influenced subsequent scholars and which is still valid and enlightening today, regards the mission to be assigned to organizations. For companies that produce for sale on the market, i.e., enterprises, he seems to accept "the coalition theory" according to which the manager's job is to create value and serve the interests of all stakeholders, considering as a priority the need to satisfy customer expectations in the realization of economic equilibrium. More specifically, the author affirms that in a company (he refers to an industrial enterprise, but the discussion is generalizable) the general purpose or socio-economic mission is the production of goods and services appreciated by customers that can be sold on the market. Barnard states that: "The purpose is not profit, notwithstanding that businessmen, economists, ecclesiastics, politicians, labor unions, persistently misstate the purpose. Profit may be essential to have a supply of inducements to satisfy the motives of that class of contributors usually called owners or investors whose contributions in turn were essential to the supply of inducements to other classes of contributors."[15] Barnard was aware that the flows of revenues from customers were the prerequisite to meet the expectations of the various stakeholders and in particular to ensure the equity shareholders "reasonable compensation." The author does not use the terms "reasonable compensation" but remuneration/incentive to satisfy the motives of venture capital investors. Barnard's view of the overall purpose to be assigned to the company was returned to much later by scholars of management and organizational behavior; it is now followed by many scholars of economics and sociology. Barnard's position on the general aims of non-profit organizations is also modern and enlightening: their mission is to realize effectively their institutional purposes in conditions of economic equilibrium (equal revenues and expenses) and operating efficiency.[16]

[14] The emphasis is not referred to the power of authority or its "persuasive" value, which is accompanied with rewards and sanctions, but to the limits of authority itself, which, to be useful, must necessarily find its reason to exist in consensus. This concept has influenced the work of many scholars of management and organizational behavior.

[15] Barnard (1938), p. 154.

[16] For more detail, see Sect. 7.6.2.

11.3.10 The Economic Equilibrium Necessary for the Survival of Organizations

Another surprisingly modern and enlightening concept is that of the economic equilibrium of enterprises and non-profit organizations. Barnard says that all companies, if they want to survive and carry out their mission, must respect the principle of economic equilibrium.[17] In his opinion the costs of incentives for participants and for persuasion activities may not exceed the flow of economic resources that the company obtains through its operation except in the short term and in certain exceptional moments.[18] The sustainability of the coherence between effectiveness (satisfaction of company interests) and efficiency (satisfaction of organization participants) is conditioned by respect for the principle of economic equilibrium. In a company, this balance is achieved when, at least in the medium to long term, the revenue stream covers all costs (for the remuneration of productive factors related to the company by contract) and leaves an economic margin to adequately meet the requirements of the holders of risk capital. The author, as mentioned above, does not specify the methodology for the calculation of the "fairness" of payments to be allocated to equity; but it appears that he is referring to market conditions and considering business risk. For different organizations (that is, non-profit organizations and in particular charitable institutions) the economic balance is defined in different ways: in the absence of the profit objective, equilibrium is achieved when, at least in the medium to long term, the flow of revenue equals the flow of costs necessary to achieve the institutional objectives of the organization, and the condition of efficiency is respected.

11.3.11 Effectiveness and Efficiency: The Basis of the Cooperative System and Lasting Company Success

Effectiveness and efficiency are the two fundamental pillars of Barnard's model. The second concept is highly original and is not in line with prevalent conventional theory and practice.[19] Both concepts are useful in the development of Barnard's theory,[20] which aims to create a lasting, cooperative organization model, based on the balance between the rewards provided by the company, on the one hand, and the contributions of participants, on the other; meanwhile economic equilibrium must be respected according to the type of company considered. Effectiveness is the indicator that measures the level of achievement of company objectives. In other words,

[17] On Sect. 7.6 of the present work.

[18] Barnard (1938), p. 154 ff.

[19] See Onida (1971), p. 69 ff.; Zanda (2012), p. 283 ff.

[20] We do not share Callender's view that Barnard's definition of "efficiency" is a source of confusion. See Callender (2009).

it expresses the extent that organization participants respond to the requirements of organizational roles in the interests of the company (effectiveness constitutes what is commonly defined as the *socializing dimension of the organization*). Efficiency, conversely, is the extent to which the organization is able to satisfy the needs/objectives of individual participants (*personalizing dimension of the organization*).

In Barnard's view, the company is a potential collaboration instrument that becomes effective if conditions are created to develop lasting cooperation; and this collaboration is created if a balance is achieved between what participants receive from the organization and what they offer. Barnard points out that the objectives/interests of the company and those of the individual participants do not automatically converge. The element that makes them compatible is the "the executive function." When the executive plays his role he tends to assume a neutral and responsible "organizational personality," which induces him to act for the "common good," in the interests of the various *stakeholders* connected with the organization. The role of the responsible executive is essentially to create and maintain collaboration (cooperative system), to develop conditions of the organizational structure and operating function that create durable and compatible effectiveness and efficiency: if this occurs, it creates a "sustainable" organization system, destined to last. Ultimately, the balance between effectiveness and efficiency and the *sustainability* of the equilibrium depend, to a large extent, on the quality of the management process and, in particular, on the leadership style that inspires and forms the process.[21] On this subject, Barnard's theory is surprisingly modern, systematic, and useful.

11.4 Final Assessment of the Contemporary Relevance and Originality of Barnard's Management and Leadership Theories: Answers to the Research Questions Formulated in Chapter 1

This section summarizes the answers to the "research questions" that we posed in Chap. 1 on Barnard's theory of management and leadership.

In Chap. 2, we outlined a management model to be used as a benchmark to assess the originality and current relevance Barnard's contributions on the basis of our discussion of modern doctrine and the knowledge-based economy.

In Chaps. 7 and 8 and, in particular, in Chap. 9, we stated that Barnard's theory, as a whole, is in line with the model cited in Chap. 2, which serves as a benchmark (subject to certain shortcomings indicated in paragraph 9.4.5 which will be further explored in Chap. 12). Barnard's model presents the contents of the leadership function and its effect on the other management functions and the combined effect of leadership and other management functions on "company result variables." We must also recognize that, interpreted broadly, it integrates the model used as a benchmark and equals it in conceptual clarity and systematic construction. It can,

[21] See Barnard (1938), part I. chapter IV; part III. chapter XI, and part IV. chapters XV and XVI.

therefore, still be very useful and enlightening for students of management and for executives in the private and public sectors.

Barnard's model is distinguished by *conceptual clarity* because it specifies clearly, *what leadership is, what the management process is and the relations between the two concepts*. The author—in line with the most accredited theory of management—divides the management process into the following functions: planning, control, organization, creation, and maintenance of a cooperative system and leadership.

The first function "moves" the company system and establishes the evolutionary trajectories; it is a complex system of integrated decisions, to determine the company purpose, and objectives and the management strategies to achieve them.

The second function regulates the behavior of the company system, keeping it constantly oriented towards its objectives.

The third function creates the organizational structure (roles and relationships between roles), the information system and the system of communications that feed the deliberative processes, execution, and control.

The fourth function creates a socio-economic cooperative system through the use of incentives and persuasion.

The fifth function, leadership, is a special function, superior to the other management functions, insofar as it *forms* them according to the leadership styles adopted by executives.[22] This point was not adequately emphasized by Barnard. However, from the work of the author overall, it can be deduced that, if the style of leadership changes, it modifies the decision-making model, the extent of deliberative decentralization, and the level of use of authority and analytical control of employee's behavior; also the organizational structure and information system change; and, finally, the process by which cooperation within the organization tends to be realized. Ultimately, the kind of leadership adopted forms and directs other managerial functions. Barnard[23] makes clear that the creation of a valid cooperative system and the simultaneous respect for the principles of effectiveness and efficiency are not the fruit of leadership alone, but in combination with the other *management* functions.

Leadership, according to Barnard, broadly interpreted, consists of two components:

(a) a "moral system" or "moral codes system" that inspires the leader's conduct (for example, private religious and political codes; assumptions on the behavior of employees, their capacities, and their commitment in their work; postulates on how to interpret the role of the executive, on the aims to be assigned to the company, the use of authority and control, respect for people, the concept of common good, etc.);
(b) the "personal qualities" of the leader. Among these qualities, for Barnard, the fundamental one is "responsibility,"[24] which is the manager's capacity to respect the moral codes to which he is committed, even in the presence of strong impulses and desires to the contrary, and by the possibility to access a

[22] See Sect. 9.3 of the present work.

[23] Barnard (1938), p. 259.

[24] Barnard (1938), pp. 282–284.

super-code that will allow him to overcome the dilemmas that can arise from the presence of a conflict between codes.

"Moral codes" and "personal qualities," combining with each other, determine leadership styles, which, in turn, shape other management functions and directly influence the people who collaborate with the leader, arousing faith, admiration, attraction, and imitation, and develop in individuals the perception that the leader is an useful "instrument" to meet their needs.[25]

The model proposed by Barnard is also distinguished by its systematic construction. It highlights and links as a system: (a) the relationships between leadership styles and the "influence" exerted by leaders on participants; (b) the influence of leadership styles on the quality of the other management functions; (c) the impact of the combination of leadership styles and management functions thus formed on the "result variables" of the organization.

The result variables are: (1) the *level* to which the cooperative system is developed; (2) the *extent* to which the company realizes effectiveness and efficiency, according to Barnard's meaning.

While measurements of effectiveness levels are easily carried out using economic, financial, equity, and performance indicators, for the other variables (mainly qualitative) measurements are more complex. However, it is still possible to develop specific indicators to measure at least the tendency of phenomena in the course of time in a reasonable way.

It should be noted that Barnard's theory does not present a set of alternative management styles potentially adoptable by managers, nor does it indicate the methodology to assess those which are valid and those that are less valid in order to strengthen "organizational health," to preserve the cooperative system and improve company results.

This topic will be addressed in greater detail in Sects. 12.5 and 12.6.

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[25] Moral codes combine to give a moral foundation to the government of companies and to the profession of manager.

The importance and validity of Barnard's teaching on the subject of moral codes, responsibility, and the need to develop company decisions oriented by higher ethical principles are underlined by Novicevic et al. (2005), pp. 1396–1409.

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Chapter 12
Limitations of Barnard's Model

Abstract In this chapter, we give our personal view on important elements of organization structure and operation able to strengthen the cooperative business system, which were neglected or little emphasized by Barnard, in the light of the most recent scholarship on the quality of leadership.

12.1 The Decision-Making Process Is Assigned Lower Importance Than the Organizational and Communications System

In the development of his theory of the executive process (planning, control, organization, cooperative system, and leadership), in our opinion, Barnard assigns greater importance to the structural system of communications and therefore to the organization than to the decision-making function, the process that defines the company mission, general and specific objectives, and the management strategies and policies to realize them.

This creates some concern for the researcher of the present "knowledge society" mainly because the information system and organizational structure are the "basic tools" for the decisions that actually move company behavior, directing it towards purposes capable of satisfying the interests of the organization and its members.

When Barnard wrote his fundamental work, probably the most important and company management issues to be solved had a structural nature (formalization of the control and information lines, creation of specialized roles, and coordination of roles) rather than a decision-making nature (distribution of decisional power, decentralization, etc.). The fact remains that Barnard seems to give the decision-making function less relevance, putting it in third place, after the organizational function and aims to create a cooperative group. This also seems to be confirmed by the fact that, according to the author, observing an executive at work, it may be noted that "many things that he tells others to do are suggested by the same people he manages."[1] In other words, in his view, an executive is more a person who operates

[1] Barnard (1970), p. 346.

S. Zanda, *Building Efficient Management and Leadership Practices*, Innovation, Technology, and Knowledge Management, DOI 10.1007/978-3-319-60068-0_12

as a referee, who listens, mediates, coordinates, and communicates to develop and maintain collaboration and to make compatible effectiveness (company interests) and efficiency (satisfaction of participants' interests), rather than an individual who systematically takes decisions and commands.

The last statement is understandable: it is true that a good manager acts discreetly, avoiding the systematic use of authority to impose his decisions; but in our opinion, the fact remains that the decision-making function is just as important and complex as the other management functions. The functions of information, communication, organization and incentivization are serving functions unlike the decision-making process that moves the organization, specifying its mission and outlining its evolutionary lines.

The limited emphasis placed on the importance of the decision-making process, in our opinion, depends on the fact that Barnard does not consider the delegation of decisions a fundamental tool for incentivizing people. The author does not seem to worry about creating organizational roles that can satisfy both the needs of employees and the organization's interests simultaneously through decentralization and delegation of decisions. He relies mainly on incentives extrinsic to work and on the capacity for persuasion (especially the rationalization and "inculcation" of motives in line with the company's interest). This orientation characterizes Barnard's thought, despite the fact that the author was among the first scholars to point out that the behavior of large companies, operating in a dynamic environment and making use of advanced technology, is more rational the more decisions are based on extensive, reliable specialized knowledge and information and on a pluralist decision-making structure. Barnard clearly specifies that the rational action of companies is closely linked to the adoption of a "pluralistic" decision-making structure, which is "organically integrated" and distributed in a variety of decision-making centers of the company organization.[2] However, in his analysis, the author does not highlight the fact that the creation of a "widespread and integrated" decision-making system has effects not only on the quality of decisions (and consequently the effectiveness of the company), but also, and above all, on the motivation and cooperation of the members of the organization. This is because the adoption of a pluralistic structure is the main tool to merge the "socializing dimension" (company interests) with the "personalizing dimension" (personnel interests). Indeed, Barnard is one step away from this conclusion, but has not systematically developed the concept that the type of decision-making structure adopted is one of the main organization motivating factors and a fundamental tool to ensure sustainable consistency between effectiveness and efficiency.

Certainly, the author understood this phenomenon, but did not formally highlight and value it in his theory of management and, in particular, in his theory of incentivization. Only with the works of H. Simon, D. McGregor, and R. Likert[3] in the following years was the right emphasis given to the decision-making process, both as a rationalization instrument of company behavior and as a motivating factor.

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[2] Barnard (1938), p. 233.

[3] See: Simon (1958, 1960), McGregor (1960, 1966), and Likert (1961, 1967).

12.2 The Actual Role Played by Top Management in Managing Complex Organizations Has Not Been Adequately Explored

Barnard, as we have seen, argues that in complex companies the formulation of general aims and objectives of the units at different levels of the organizational structure is "distributed" in the sense that the decision-making process is divided into a "pluralistic structure" of decision-making centers. The objectives are arranged according to a means-ends chain: those of higher order represent a premise, a guide, and orientation for those of a lower order. This chain must be respected if the organization is to operate harmoniously. It should also be highlighted that any decision of importance is taken, as a rule, with the contribution of the knowledge and skills of many units arranged in the company hierarchy. A decision of some complexity requires skills that, normally, are not possessed by a single person or by the individuals who form the company's top management. Therefore, it is necessary to refer to various specialists in the fields of technology, informatics, finance, marketing, etc.; and it is also necessary to have the capacity to organize, coordinate, and incentivize these specialists in order to unite their work.

It should be noted at this point that although Barnard, on the one hand, clearly specifies that the decision-making system in complex companies is "pluralistic" and "organically integrated," on the other, he does not place adequate emphasis on the fact that relations between participants in the decision-making process, although reciprocal (or "two-way"), do not have the same "strength of conditioning." The author does not outline explicitly that the top managers, by their decisions, limit the freedom of action of the organizational units of a lower level and direct them so that their conduct is coordinated, harmonious, and constantly oriented towards the realization of the general objectives of the organization. In other words, while Barnard takes a long time to specify that the conduct of a complex company is the "resultant" of a system of decisions taken by a multitude of people at different organization levels, he does not sufficiently underline (or explain), in our view, that the overall conduct of the business system is controlled by the "top of the organization," the central unit of management and control. Top management holds the real power of company control since—albeit with the contribution of other specialized bodies—they make the final choices that determine the mission, the general objectives, and the evolutionary strategies of the company. Moreover, top management defines and enforces organizational roles and rules of operation and systematically orients and guides subordinate business centers (by persuasion, by providing incentives and, in special cases, by authority), adapting their behavior to the specific and general objectives, and strategies of the organization. This lack of emphasis on the real powers of top management can be confusing. It can lead the reader to interpret Barnard's thought in the sense that the supreme governing power of large complex organizations is held by a broad coalition which includes top managers, customers, executives not belonging to senior management, the shareholders who are not part of the top management, suppliers, competitors, unions, etc. According to this interpretation, the members of the coalition have an almost equal influence on the determination of the purpose, general objectives, and strategies of the company.

Barnard's theory of "subjective authority" raises further interpretative concerns: that the source of authority resides in employees and, more generally, in the people who belong to groups that formulate expectations of business conduct. They are also fueled by his description of the role played by the executive in company management: that the *executive*, rather than making decisions, listens, mediates, coordinates, guides, communicates, and integrates effectiveness with efficiency. The executive—states the author[4]—maintains predominantly a discreet, balanced profile, characteristic of a judge and educator, and rejects manifestations of authority.

Barnard's lack of emphasis on the fact that relationships between top management and the various stakeholders are not equal has influenced the thinking of many scholars of company conduct operating within the managerial capitalism environment. Among these, in Chap. 5 we cited Cyert and March, and Galbraith.

According to Cyert and March, the overall aims and objectives of the large enterprise are substantially determined by a broad coalition of active stakeholders through a complex process that requires: (1) a bargaining process (outlining the perimeter of the coalition and objectives pursued); (2) a process of stabilization of objectives; (3) a process of adjustment of objectives and agreements of coalition members to the variations that occur in external conditions.

In Galbraith's opinion[5] even the actual decision-making power is firmly located with the staff of technicians, programmers, and other experts; the governing bodies would exercise modest actual decision-making powers; they would have substantial ratification powers and limited powers of choice. Ultimately, according to Galbraith, it is not top management who exercise the power of control in enterprises: this power is concentrated in a large group of specialists, which he called the "technostructure," which constitutes the directive intelligence—the brain—of the company.[6]

We do not share the approach and conclusions of these economists, which are essentially based on the theory of oligopolistic markets and, therefore, do not focus their analysis on the actual operation of organizational structures and the effective exercise of management in complex companies.

However, the theories about power in organizations of Galbraith, Cyert, and March are not in line with Barnard on the operation of the decision-making structures; at most, they reflect an incorrect interpretation of Barnard's thought on this subject. We make this claim having systematically studied the work of Barnard and the characteristics of his cultural background largely founded on the experience of top managers of large corporations.

According to our interpretation, although Barnard states (among other things very correctly) that the executive must have a reserved profile, to function mainly as a judge, mediator, and educator, he does not assign "equal importance" to relations

[4] Barnard (1970), p. 346.

[5] Galbraith (1967), pp. 60 ff.

[6] Ibidem, p. 58 ff.

between top management and other business and non-corporate bodies. He suggests (although in short passages of his work) that the guidelines underlying the business system (purpose, general objectives, and evolutionary strategies) are substantially the responsibility of top management and that, in reality, the decisions of top management are an essential premise for decisions and the conduct of lower-order bodies in the hierarchy. The author[7] underlines that the decisions taken at the various levels of the organization must be coordinated, guided, and made consistent with the overall aims and objectives of the company system. In order to harmonize and regulate the behavior of company sub-systems (departments, divisions, units, offices, etc.), the "general manager" (top organ) has the task of specifying the purposes of the company and the direction in which the organization should be moved. His subordinates must regulate their objectives and conduct in relation to the directives received. According to the author, within the organizational structure there may be relations and discussions that lead to collegial regulation of objectives and behavior; but fundamentally, "responsibility for abstract, generalizing, prospective, long-run decision is delegated *up* the line."[8] Ultimately, according to Barnard, top management is the central unit of direction and control of the business system. In this position, it has the task (he says) of "catechizing," stimulating, and inducing the organs of subordinate levels to bear in mind the objectives established by the top of the organization "so that they remain cohesive and able to make the ultimate detailed decisions coherent."[9]

To avoid misunderstandings and deceptive interpretations from readers, it would have been helpful if Barnard had stated his thoughts more clearly and more extensively on the real governing powers of top management and the asymmetry in the power of influence within the organization structure. It is the vertex that controls the strategic decisions determining the survival and development of the organization and exercises the powers that allow it to direct, coordinate, and regulate the conduct of the business system. On the other hand, Barnard was an executive who worked at the highest level in large companies with diffused decision-making structures and knew perfectly the real powers of a top manager. He could affect the conduct of employees, both through his own leadership capacity, and finally by objective authority that ran along the lines of command of the organization, from top to bottom. Barnard was well aware that authority allowed him to appoint, remove, move, punish, and reward lower-level managers; it also allowed him to decide on the composition of the decision-making group and assigned him the right to guide and coordinate it; he was therefore aware of having potentially effective tools to regulate the conduct of his subordinates. However, for a strategic decision of considerable complexity, in which various experts with specialist skills participated, his top position allowed him to "preserve" the final phase of the decision-making process, the choice of the alternative to be adopted.

[7] Barnard (1938), p. 231.

[8] Ibidem, p. 232.

[9] Ibidem, p. 233.

Complex decisions are divided into the following phases: identification of the problem to be solved; definition of the problem and the conditions that characterize it; development of alternative solutions; assessment of the consequences associated with the individual alternatives; choice of the alternative considered more convenient. Of course, in the various phases a multitude of people at different locations in the organizational framework usually participate, bringing specialist and also exclusive contributions. However, objective authority, legitimized by the organization, allows the executive body to reserve the right to the final choice, which, logically, is inspired by the "utility function" of the person making such a choice. Therefore, the top manager has the possibility to affect different phases of decisions, supplying ideas, direction, integration, and support, but, above all, he has the right to "close" decisions, to accept or further develop them or reject certain projects.

In our view, Barnard certainly considered top management the supreme control and directive unit. He believed that the company's ability to survive, to develop, to continuously recreate new energy, and adapt to the environment and to the "expectations" of its members largely depend on the decisions from the top.

Then, one wonders, why has the author placed so little emphasis on the decision-making powers of top management? Probably, this is because Barnard sought, in his writings and in his public statements, to minimize the "visibility" of management power and the real authority of the top executive. Like any prudent executive, he preached that "objective authority" should not be used in a continuous and systematic way to govern complex organizations. Conversely, it should be used in a very discreet way and only in exceptional cases: when there is deep disagreement that cannot be overcome by discussion and persuasion inside the decision-making group, when the group must be reorganized or dissolved and in emergency conditions that require immediate intervention.

12.3 Analysis of the Relationship Between Leadership and the Other Functions of the Executive Process

Barnard divides[10] the executive process into the following functions: planning (determination of the goals and business objectives); control; organization (organizational structure, lines of communication, and information system); creation and maintenance of a cooperative system; leadership.

According to Barnard, leadership is a special management function consisting of two fundamental characteristics of the executive: (a) an ethical codes system and (b) a set of personal qualities.

These two elements combine to generate the management styles that, on the one hand, influence and shape the other management functions and, on the other, develop

[10] The terminology used by Barnard is slightly different in the form used above, but, in substance, it coincides perfectly.

the power of attraction and influence of the leader and the perception that subordinates and third parties have of him.

In turn, the management functions (modeled by the type of leadership adopted) and the power of attraction and influence of leaders combine in different ways to affect the quantitative and qualitative "outcome variables" of the company (economic, financial and capital results; productivity level; quality of life of the organization, etc.).

This is our interpretation of Barnard's conception of the executive process.[11]

On the quality, originality, and relevance of Barnard's theory we expressed a very positive opinion in the previous section.

However, it is possible to highlight some elements that, in our view, were neglected or little emphasized by Barnard in his theory. We will permit ourselves to make a few brief critical remarks on the underlying philosophy of his leadership theory. In the diagram showing the management process and its relationship with the leadership function (in Sect. 9.4.4), it can be clearly seen that it is considered one of the management functions. It is equally clear that it appears to be a special function, of a "higher order," because, in addition to directly affecting the power of attraction of the leader, it influences and shapes the quality of the other management functions: planning, control, organization, and creation/maintenance of the cooperative system. Leadership is essentially a function with strategic value, which shapes the content of other management functions. Good leadership helps create structural and operating conditions that positively affect the conduct of the corporate system, while developing effectiveness and efficiency and ensuring the survival and development of the organization. Conversely, bad leadership can have ruinous influences on financial results, the integrity of the cooperative system, and efficiency and effectiveness and may be the virus that attacks the business climate, worsens human relationships, destroys the energy of the organization and the commitment, creativity and imagination of its participants.

Barnard does not devote adequate space to discuss the relationship between leadership and the other functions that make up the executive process. In particular, he does not describe sufficiently how different leadership styles may influence the content (and quality) of the other executive functions. Moreover, his related observations can be found at various points of his work and, therefore, it is difficult to have a direct and ready theory on this subject. It is thus necessary to deduce the *theory* using the various "conceptual building blocks" arranged by the author. To this end, in Sect. 9.4, an attempt was made to organize the thought of the writer on this subject and to interpret and connect some concepts distributed in his writings.

The main conclusions reached are as follows.

First, the type of leadership actually adopted (combination of the codes of conduct of managers and the personal qualities of leaders) influences and shapes the managerial functions of planning and control. If the codes and assumptions that

[11] The expression executive process is equivalent to management process. Barnard, however, preferred the first expression, probably because management, at the time when he wrote, was not well thought of.

inspire the conduct of executives change, the decision and control processes also change significantly. For example, an executive who has internalized the "negative" management philosophy according to which the average man in an organization tends to be lazy, indolent, and insensitive to the needs of the company, unable to decide and to control himself, with little creativity, initiative, and imagination, will, almost certainly, base his management system on the centralization of decision-making and analytical control of human behavior. If, in his opinion, employees do not have decision-making skills, and do not cooperate spontaneously, he sees himself "compelled" to use a management strategy based on force and tries to make them docile, centralizing decisions, issuing orders and directives, establishing tight control and even by means of sanctions, to induce people to obey and to meet the demands of organizational roles. In this case, in the short term, it is likely to increase effectiveness to the detriment of efficiency (satisfaction of employee motivation). Completely different results and structures of decision and control occur, if the quality of leadership (i.e., the style of management) is based on positive assumptions about the behavior of employees in their work, their decision-making capacity, their level of creativity, initiative, and loyalty to the organization.[12]

Second, the type of leadership adopted influences and shapes the function of the organization. If you change the type of leadership (and thus the codes of ethics, beliefs, and principles that inspire the executive and his personal qualities are changed) it produces a significant change in the organizational structure, the information system, and the lines of communication between the various organs.[13]

Third, the type of leadership adopted has considerable repercussions on the way of creating and maintaining a cooperative system in the organization. If you change the leadership style, variations are noted in the way collaboration develops; it changes the combination of the use of incentives and persuasion (in turn achievable by using authority or the rationalization process or the process of "inculcation" of organizational efficiency objectives). More precisely, a change in leadership style produces a change in coherence between efficiency and effectiveness. It determines whether this consistency is mainly achieved by a "socialization process" (adapting

[12] More precisely, the type of leadership (quality of moral codes, management principles that inspire managers and managers' personal qualities) have a profound effect on the freedom to make decisions granted to employees, thereby leading to different programming and control systems that evidently affect, in turn, the company climate, people's motivation, organizational cohesion, and economic, financial, and patrimonial results. The decisional discretion of employees can be almost completely eliminated by adopting management styles that use highly centralized decision-making processes, analytical operational rules and procedures, and very bureaucratic organizational structures.

[13] In other words, if there is a change in the principles of conduct underlying management styles (for example, the conduct of employees in their work, their capacity for decision-making and self-control, creativity, commitment, loyalty to the company) and in the way the executive interprets his role in relation to the objectives of the company and to the personnel management strategy, there is no doubt that also the organizational function changes (content of roles; extent to which the roles contract or expand the decisional discretion of the various members; extent to which recourse is made to hierarchical authority and operational procedures; extent to which the coordination of the company system is achieved using self-direction and self-control).

the motivation and interests of employees to the interests of the company) or by a "process of integration and fusion" between the interests of the organization and those of its members.

Certainly, the codes of conduct and personal qualities of the executive (i.e., the types of leadership adopted) largely determine the quality of the processes of decision-making, control, organization, and development of cooperation within the company system.

The cause–effect relationship between types of leadership concretely adopted and the quality of management functions was repeatedly touched by Barnard. The author, however, only points out this correlation, but does not elaborate on the issue because he does not sufficiently specify which ethical codes and management principles are to be preferred and which to be avoided in order to create and maintain a cooperative system combining sustainable effectiveness and efficiency. However, he outlines analytically his opinion of the personal qualities of a good and efficient leader. Among these qualities, he systematically describes responsibility, which, according to the author, is a mainstay of leadership and of the connected management process. On this point, we present our observation below.

12.4 Excessive Emphasis Placed on Responsibility Rather Than on the Quality of the Ethical Codes That Inspire the Conduct of the Executive

Responsibility, as stated above, is an important quality of a leader. It consists in his capacity to respect personal codes of conduct (even in the presence of strong impulses and conditioning) and to refer to a super-code of conduct when there are conflicting codes.

Barnard, as we have seen, affirms that leadership rests on two pillars: the codes of conduct and personal qualities of the leader and, above all, responsibility. The author puts much emphasis on responsibility (and the associated reliability of the leader) and gives little space to the quality of ethical codes. This creates in the reader the idea that, whatever the codes, only responsibility (to animate, guide, and lead the human system of the organization) can create a valid cooperative system in which high effectiveness and efficiency are simultaneously realized. In this regard, it is useful to remember the following affirmation of the author: "Responsibility is the property of an individual by which whatever morality exists in him becomes effective in conduct."[14]

This phrase is unfortunate and therefore, if we are to respect the author's thought, it should be read in this sense: the quality of the company's collaborative system is the combination of the quality of codes and personal qualities of the leader

[14] Barnard (1938), p. 267. This phrase is cited by many scholars and is often incorrectly interpreted.

(in particular responsibility). Therefore, high responsibility, combined with a high-quality system of codes, generates a valid cooperative system in which high effectiveness and high efficiency are realized simultaneously and sustainably. Conversely, if the high responsibility (and high reliability) of the executive is not accompanied by a high "moral system," collaboration within the organization and consistency between efficiency and effectiveness tends to fade: the business system can function and achieve satisfactory results in the short term, but, with time, it inevitably tends to disorder and disintegration.

Barnard's insistence on the fact that, without responsibility, management and technological capacities do not create a valid cooperative system; the clarification that the requirement of responsibility is the foundation of the executive process and that responsibility can make effective (and thus support and implement) any morality that inspires the executive, can puzzle the casual reader who does not interpret the author's thought systematically. On the other hand, the reader may be "comforted," about this way of thinking, by a vast literature, which is often contradictory:

– sometimes it exalts the manager inspired by "Theory X," based on the assumption that employees have negative attitudes towards work by nature and, consequently, it is essential to use authority and constant control to "force them" to respond to the requirements of organizational roles.
– at other times, the literature underlines that good managers are those who systematically use authority and control, but who tend to encourage employees with a "paternalistic" management style that aims to "make human nature docile" using material rewards and concessions.
– at the other extreme, there is a literature that praises principles of management behavior based on empathy, personal respect, on the enhancement of intellectual and professional skills of employees in the performance of their duties and decentralization of decisions (delegation of decision-making powers, participation, self-control, etc.).

It should be noted that Barnard does not produce an adequate analytical effort to avoid the interpretation that any kind of leadership can be successful if executives are equipped with a high sense of responsibility. He "recovers" the correct concept of leadership only at the end of the seventeenth chapter of the book *The Functions of the Executive*, dedicating only a few lines.[15]

In particular, the author affirms, "the endurance of organization depends upon the quality of leadership; and that quality derives from the breadth of the morality upon which it rests."[16] He adds, "High responsibility there must be even in the

[15] Barnard (1938), pp. 282–284.

[16] Ibidem, p. 282. Note that this sentence connects the quality of leadership to the quality of the moral system, but leaves a small margin of interpretative uncertainty because the quality of the moral system is defined in relation to the extent of the moral system (breadth of the morality). The breadth is mainly connected with the large number of codes of conduct and therefore if the codes are not suitable to create a good cooperative business system, their abundance does not bring substantial benefits

lowest, the most immoral, organizations; but if the morality to which the responsibility relates is slow, the organizations are short-lived. A low morality will not sustain leadership long, its influence quickly vanishes, it cannot produce its own succession."[17]

With these very synthetic propositions, Barnard argues that the quality of leadership is linked not only to the personal qualities of executives (responsibility in particular), but also with the quality of the "codes of conduct" system (moral system of the organization), whose quality is relevant for the survival of the company and, consequently, for the satisfaction of company objectives and those of participants.

In summary, it would have been preferable if these concepts had been treated more broadly by Barnard and, above all, if the quality of the codes of conduct had been analyzed to evaluate and indicate which set of codes is more valuable to create and maintain cooperative company systems.

This theme will be the subject of our subsequent analysis (Sects. 12.5 and 12.6) in which the most significant criticisms of Barnard's theory of leadership are presented. These criticisms regard the following aspects:

(A) it seems that the classification of "codes of ethics" is not complete because it lacks some principles that can inspire the management philosophy of executives and that are, therefore, essential to understand the quality of company management;
(B) there is no discussion of the "quality" of ethical codes and management principles; because the cited codes and principles affect the quality of leadership styles, a discussion of the topic seems essential, to make the choice of style to be adopted in order to create and maintain a cooperative system that combines sustainable effectiveness and efficiency.

12.5 The Classification of Codes of Conduct Is Not Complete

As we have previously seen,[18] Barnard states that executive behavior is largely influenced by a system of private moral codes. This "moral state" (or psychology, as the author calls it) derives from external sources of influence and from the system of activities carried out.[19] Therefore, moral codes refer to the various fields in which

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to the quality of leadership. Therefore, it would have been appropriate if Barnard had written that the quality of leadership is connected with the quality of the "moral system" of the executives that govern the company.

[17] Ibidem, pp. 282–283.

[18] See Sect. 8.4.4.3 of the present work.

[19] "Morals arise from forces external to the individual as a person. Some of them are believed by many to be directly of supernatural origin; some of them derive from the social environment, including general, political, religious, and economic environments; some of them arise from experience of the physical environment, and from biological properties and phylogenetic history; some from technological practice or habit. Many moral forces are inculcated in the individual by education and

the reality you are in or you operate in can be divided: religious, political, patriotic, family, business, citizenship, etc. The large number of codes determines the complexity of the "moral state." This complexity tends to reach very high levels when taken into account by executives. Because they play a leading role, they tend to assume an "organizational personality" and to internalize the codes of the organization in which they operate (supplementary codes). For example, Barnard describes the "supplementary codes" that an executive may be called to use the moment he plays a leading role in an important department of an industrial company. These codes can be summarized in the following categories: (a) compliance with state provisions applicable to the company (laws, statutes, regulations, etc.); (b) compliance with the objectives of the company and business methods, including respect for its "objective authority" system; (c) respect for the objectives of his department; (d) compliance with the ethical standards regarding the management of subordinates; (e) respect for the overall technical situation; (f) respect for the informal organization code; (g) commitment to pursue the common good within the enterprise; (h) respect for the informal organization code of the department he directs; (i) respect for the technical requirements of the department.[20]

Barnard notes that, in the presence of a complex system of moral codes, it is very likely that, in relation to certain specific activities, conflicts between codes can arise since the assumptions that support them are incompatible. This causes inner moral dilemmas. The problem is solved by the good executive through the predisposition of a "super-code" that solves or at least overcomes inconsistencies. It allows him to respect the substance of the principle of responsibility, by respecting the code system that he has declared and manifested to the various members of the organization and stakeholders with whom he has come in contact. Therefore, a responsible manager has a strategy that organizes the various ethical codes, by creating an "ordinal function," of the importance of codes. This allows the resolution of conflicts and the overcoming of behavior dilemmas. As noted in Sect. 8.4.4.3, the foregoing is the result of our extensive interpretation of Barnard's thought. In fact, the author does not speak explicitly and clearly of a "higher code of ethics" (a super-code); moreover, his vocabulary does not permit unequivocal understanding of the process by which you should build an "ordinal function" of the importance of the codes and how the final choice of the codes to be preferred should be made. He merely outlines a broad strategy to overcome conflicts that is, frankly, unsatisfactory.

In addition to the above, we can also criticize the completeness of the system of codes of conduct that is the basis of the leadership theory developed by Barnard.

The author presents a vast system of codes of conduct organized according to particular areas. However, he devotes little space to the principles that underlie the management philosophy of the executive and that, consequently, inspire their conduct in directing a company. These principles are essential to understand the quality

training; and many of them accrue through absorption, as it were, from environment- by imitation or emulation, and perhaps also in the negative form of absence from concrete experience." (Barnard 1938, p. 262).

[20] Cfr. Barnard (1938), p. 273. The author states that the *set* of codes listed is not exhaustive.

of managers and of management carried out by them; the knowledge of these principles allows reasonable predictions on the "state of health" of the organization and its future results.

For example, it is important to remember that Barnard pauses to report that the executive (of an industrial company managing an important department) "could be required to comply" with the following company codes: respect of applicable laws and regulations; respect for company objectives, system of authority, and the department in which he operates; respect for ethical standards in relations with subordinates; respect of technical requirements of the company and the department; respect of codes related to the informal organization of the company and the department; respect of the code that members of the organization should act for the realization of the common good.

We are dealing mainly with very general principles of conduct (with undetermined content) that are almost "necessitated" by membership of an organization. Some represent constraints (for example, compliance with the law); others must be interpreted in their content by managers, internalized by them and applied to manage the company, shaping the functions of planning, control, organization, incentivization, and persuasion, with a view to establishing an adequate collaborative system.

Returning to Barnard's theory, it must be remembered that the leadership of an executive rests on two pillars:

1. personal qualities of the executive
2. ethical codes of conduct.

For greater clarity and, above all, to allow a wider analysis of the phenomenon of leadership ethical codes, in our view, can be divided into two categories:

2.1 system of general ethical codes related to or presiding over the various areas of reality, but excluding company management: religious, political, patriotic and family codes, citizenship, general respect for people, loyalty, etc.; these codes coincide with those of Barnard;

2.2 system of codes of conduct related, in particular, to the management of companies; these are neglected by Barnard.

The second category consists of a set of principles that form the management philosophy of the executive.[21] This philosophy decisively influences the functions of planning, control, organization and creation, and maintenance of the cooperative system. As we underlined above, in our opinion, the assumptions behind management philosophy were not adequately addressed by Barnard, who did not emphasize the possible managerial philosophies that may inspire alternative leadership styles with different effects on management and corporate results. Barnard did not develop

[21] To maintain rigorous consistency in the use of terminology, it should be noted that management philosophy does not coincide with the style or model of leadership. In fact, as has been said many times, leadership style is based on two pillars: personal qualities of the leader, and personal and corporate codes of conduct; the latter include the assumptions/principles of management.

an analysis of the philosophy of management or of possible leadership models; nor did he describe the consequences on the health of the organization and on company results that could result from the adoption of alternatives.[22]

It should be noted that some of these management principles are cited by Barnard in different parts of his overall work; however, the author did not collect them systematically to sketch models of philosophies and management styles and to identify the model to be preferred to direct companies.

We will now focus on company codes of conduct referred to in 2.2.

These assumptions of management can be summarized in the following categories[23]:

(i) assumptions regarding the capacities and behavior of employees in their work and the consequent role played by the executive;
(ii) assumptions regarding the company's mission (general purpose), and the consequent role played by the executive who is inspired by them.

12.5.1 Assumptions Regarding the Capacities and Behavior of Employees at Work and the Consequent Role Played by the Executive

According to D. McGregor,[24] there are two distinct and extreme approaches to the description of management philosophies.

Between these two extremes, there is a wide range of alternative models that suffer slightly from the first or the second approach. The first approach is based on authority and control; the second on participation and self-control.

The first type of management philosophy, widely practiced for centuries in organizations (and in particular in companies), has been adequately theorized by the Taylorist school. It builds on the following assumptions about the capacities and behavior of employees in their work: the average man does not like work; he has an instinctive tendency to pretend to work; the content of the work, generally, is not a motivating factor; the average organization man is not ambitious and prefers to be directed; he does not aspire to take responsibility and is hostile to change; he is insensitive to the interests of the company and concentrates on the satisfaction of his needs; intelligence, imagination, and creativity are not common among people, therefore the average man, as a rule, does not possess these qualities.

The manager who is inspired by these assumptions bases (indeed he finds himself forced to base) his human resources management strategy on the following

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[22] We will return to this point in Sect. 12.6.

[23] The classification is not exhaustive, but only illustrative.

[24] McGregor (1960), Parts I and II.

Very interesting management models—in many ways in line with McGregor's approach—were developed by: Argyris (1953, 1957), Likert (1961, 1967) and Nye (2008).

principles: centralization of decision-making; detailed planning and standardization of the tasks of subordinates using rules and procedures; analytical control over the conduct of employees; use of authority as an essential tool to induce people to respond to the requirements of organizational roles and managerial arrangements. The objective of this manager's philosophy is, in the words of McGregor, to "render human nature (more) docile," to direct it and, ultimately, force it to comply promptly with the orders and directives of the company hierarchy. If employees do not cooperate spontaneously in the realization of business objectives, if they do not voluntarily respond to organizational requirements, management is obliged to "use force" and to base its human resources management strategy on authority and control.[25]

This well-known system of assumptions and management principles is defined as McGregor's "Theory X." This management approach, applied in practice, can give rise to a wide range of leadership styles limited at the extremes by two distinct types: *tough authoritarian management* (authoritarian model in the strict sense); *soft authoritarian management* (paternalistic authoritarian model). These two styles are identical in substance, but differ in their approach towards people and, in particular, the strategy to "make individuals docile." In the first case, the manager "persuades" or rather "induces" people by threats and fear; to this end, he uses sanctions capable of achieving the desired effect: obedience of subordinates. In the second authoritarian-paternalistic model, however, the manager is working in a systematic way, while maintaining the centralization of decisions and authority, to improve people's level of morale using rewards extrinsic to tasks, making concessions, resorting to "flattery," showing great helpfulness and sometimes practicing a kind of abdication from management of the company.[26]

We will now consider the opposite philosophy to "Theory X" in its hard and soft variations. This philosophy is based on participation, on self-control and motivation mainly achieved by rewards intrinsic to work.[27] It moves from assumptions on the capacity and behavior of workers completely different from "Theory X." It assumes that negative attitudes towards work of employees (which undoubtedly are found in daily operations) are not inherent to human nature, but depend largely on the structural and operating conditions created in the company (organizational environment).[28]

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[25] The principle according to which management, in order to be effective, must be based on authority and analytical control and accompanied by other complementary principles: unity of command, parity between volume of authority and breadth of responsibilities, systematic use of staff with tasks of inspectional control.

[26] A manager with an authoritarian–paternalistic philosophy, while maintaining the prerogative of command, tends to replace sanctions with rewards. He thinks that if you are good, open, and available to employees, they will be docile, out of loyalty and gratitude: they will respond to commands and, more generally, will adapt to the requirements of organizational roles. See McGregor (1966), pp. 7 and 134 ff.

[27] It is, in other words, from rewards from the accomplishment of organizational tasks, by which social needs, self-esteem, (knowledge, expertise, success in work, independence, self-reliance), prestige, social status, power, and self-realization of organization participants are gratified in a reasonable way.

[28] When an employee is guided and directed, for a long time or always, according to control models

The basic assumptions that govern the theory in question—called by McGregor "Theory Y"—can be summarized as follows: the average employee loves his work; he is not insensitive to the interests of the company; he tends to assume responsibilities; he is capable of self-control if the organizational conditions are adequate; work (the role) can be a motivating factor that produces personal satisfaction; intelligence, creativity, and imagination are common among people and, in general, are poorly used and valued in real organizations.[29]

The executive inspired by these assumptions adopts the following guiding principles in the performance of his role:

- he tends to develop a participatory model by creating an integrated group decision-making structure, characterized by decentralization and coordination of decisions;
- he tends to value in work, employee skills (particularly decision-making). Roles are restructured so that they are suitable to simultaneously meet the interests of the company and satisfy people's needs (self-esteem, respect from others, self-realization). The fundamental task of the executive, in other words, is to create organizational and operational conditions that enable employees to achieve "intrinsic rewards to work";
- management of employees should not be based on the systematic use of authority, on analytical control of people's conduct, on the use of sanctions and rewards extrinsic to tasks; but on participation and the establishment of significant roles to enhance the capacity of individuals and develop self-management and self-control[30];
- the executive replaces threats, fear, and lack of confidence in his employees with friendship, availability, understanding, help, trust, and clear communication;
- the executive adopts "supportive" behavior (the principle of supportive relationships)[31] in his relations with other members of the organization. His leadership style and the other management processes in which he is involved should be suitable to ensure the maximum probability that in all interactions and in all relationships within the organization, each member, in the light of their own background, of their own values and their own expectations, considers the experience "supportive," to consolidate and preserve their sense of values and personal importance[32];

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that cause his indifference for hierarchical superiors and for the company, discouraging the adoption of responsibility and, in fact, preventing the application and development of his professionalism, his intelligence, and his imagination in carrying out his tasks, it is probably to be expected that his conduct at work conforms with the assumptions of "Theory X."

[29] See McGregor (1960), part I, chapter IV.

[30] With this perspective, the role of managers can also be described as a systematic process of development of possibilities, the liberation of potential, the removal of obstacles, encouragement of growth, and guidance. See McGregor (1966), part I, chapter I.

[31] The terminology adopted is that of Likert (1967).

[32] Ibidem, Chap. 4.

– the executive works to establish high performance objectives in the interests of the company and its employees, who can meet their motivations better if company results are positive.[33] Acceptance of high performance targets and employee cooperation in their determination are closely linked to the simultaneous application of a system of decisions and group supervision, on the one hand, and the "principle of supportive relationships," on the other.[34]

The executive, inspired by these principles, aims to realize the so-called fusion process.[35] This consists in redesigning organizational roles in order to create stimulating tasks for employees and at the same time realize the interests of the company. In essence, individual interests (personalizing dimension) are integrated for reciprocal adaptation with those of the organization (socializing dimension). If this occurs, management does not consist "in making sure that others do certain things" and in making people docile and inducing them to respond to orders and directives by means of authority and control, but consists in creating and continually developing the conditions and opportunities that allow members of the organization to obtain "rewards intrinsic to work" carrying out activities in the company's interests.[36]

12.5.2 Assumptions About the Company Mission and Consequent Role of the Executive

There are various assumptions about the mission of for-profit and non-profit companies.

The assumptions regarding the mission of companies have undergone adaptations and modifications in the course of the history of economic systems. The "utility function" of top management—the system of objectives assigned to the company—has adapted to environmental conditions and the motivation of those who have managed businesses.

Limiting the analysis to the market economy system and retracing the evolution of capitalism, the following periods can be distinguished:

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[33] Evidently, from a thriving company situation high remuneration, security of employment, professional pride, success in work, etc. can follow.

[34] Likert (1967), Chap. 4.

[35] Bakke (1953), Bakke and Argyris (1954), pp. 4 ff.

[36] This management approach, in conclusion, puts emphasis on the establishment of meaningful roles, participation, and self-control, developing close complementarity between personal and company needs, thus favoring the cooperation and commitment of all individuals within the business system and their lasting identification with the company mission.

It should be noted that the fusion process is hard to apply, above all in reference to the lower levels of the organization. Also both in companies and in society it is very complicated to realize the full participation of all individuals and reconcile the organizational hierarchy of power and the desire for equality. On this subject, see Aron (1971), p. 69 ff.

(a) period of entrepreneurial capitalism (end of eighteenth century—the first decades of the twentieth century): the innovative entrepreneur saw in the enterprise the means to make profit. Being in a "residual position" (receiving his compensation after remuneration of the production factors in "contractual position"), he tended to make the difference between revenues and costs as high as possible; profitability was the measure of his success;
(b) period of managerial capitalism (1930s–late 1960s) characterized by the separation of ownership and control in large corporations; managers had the primary objective of achieving high rates of physical growth with the constraint of a satisfactory income level (to finance much-needed investment and to keep the *leverage ratio* at safe levels in order to maintain control of companies. In the period in question, there was a trend to develop behavior of social responsibility, also in order to increase management's "ability to maneuver" with respect to the environment;
(c) period of managerial-financial capitalism (1970s–1990s): the objective assigned to corporations was to maximize income and the value of the stock market price of shares. This objective was pursued without regard for the interests of stakeholders. Social responsibility tended to be regarded as a fact that did not involve firms and was even considered dangerous for their survival and development;
(d) period of the "irresponsible" company (last decades of the twentieth century): the orientation towards maximum profit and the pursuit of maximum and growing shareholder value was accentuated. Every weak environment and every lack of market regulation was exploited by companies in order to make money. This aspiration was strongly shared by both equity holders and managers "hired" by them to take the strategic decisions necessary to maximize profit and the company's market value;
(e) period of market economy oriented to satisfy customer demands and to balance the expectations of the various stakeholders. In this period, that began with the twenty-first century the approach that the overall purpose (mission) of the enterprise is to produce and sell goods and services required by customers, in conditions of congruous economic equilibrium begins to be developed.[37] Companies adequately satisfy the "expectations" of the various interest groups connected with the company in the long term. It is assumed that an orientation to achieve the highest possible customer satisfaction is the premise of a successful strategy, also because managers, in this way, are put in a position to concentrate on company business, instead of managing the constantly growing expectations of shareholders.[38] This orientation was theorized a long time ago (among the

[37] The orientation is based on the consideration that the income from and the value of shares cannot be maximum, but only congruous, satisfactory and, above all, sustainable. In fact, executives cannot possibly continue to support a tendency of increasing value of shares. Values are linked to shareholder expectations about technical-economic and company financial performance; but these performances are limited by the present value of future cash flows.

[38] Executives focus their activities on the determination of operational objectives and strategies to be adopted: choice of products/services, markets, technologies, competitive factors, decisions on the use of resources and the approach with stakeholders. This orientation tends to avoid "financial-

leading pioneers were C.I. Barnard and R.C. Davis); but it has begun to manifest only recently in the market economy reality. Currently, with the advent of the third industrial revolution and "knowledge capitalism" and the gradual emergence of management concepts which match "economic rationality" with superior ethics (centered on respect for and appreciation of people and on the concept of business as a community that pursues the common good), things are changing, albeit slowly. There is the concrete hope (even if in the long run) that the orientation to customer needs will become the compass that guides the conduct of productive organizations.

Observing the current socio-economic reality, there are now companies characterized by one of the kinds of strategic orientation referred to under (a), (b), (c), (d), and (e) or a combination of them, also in relation to their size and the operational context in which they act.

It should be noted that these strategic guidelines (and the related "utility functions" of those who manage the companies) derive from two main theories on the nature of enterprises operating in a market economy. These theories have influenced the legislation of various states, company statutes and, obviously, company management over time.

On the one hand, there is the "enterprise contrast theory" which especially characterizes the first, third, and fourth orientations. This concept considers the "enterprise system" a network of contracts between owners and other stakeholders. The company is the expression of its owners. Its management has one goal: to maximize the value of profit or, in more recent versions of the theory, to maximize share value.[39] The company management strategy tends to neutralize the influence of the "opposing forces" (internal and external) represented by the various stakeholders different from the venture capitalists. The business system is continuously monitored (with very short-term deadlines) to detect the increase in the economic value of capital. To achieve the maximization of income and the value of shares you can use mergers, spin-offs, break-ups, measures to change the business of the company (for example, "financialization" of the management) and you can even arrive at its termination, when the contracts underlying the corporate system no longer respond to the need to maximize share value.

On the other hand, there is the "coalitions theory" (the stakeholder theory and the stakeholder value model). This theory came to economic and social prominence during the period of managerial capitalism; it subsequently lost favor, and then regained momentum in the current period of the knowledge-based economy. The coalitions theory is based on the following principles. The business system is regarded as a coalition of interest groups whose aspirations are mediated and regulated by management. The organization's primary purpose is the production and

ization" of management of industrial and commercial enterprises and, in particular, avoids speculative financial operations, often far removed from the core business, which aim to maximize income and share value in the *short term*.

[39] The *enterprise contract theory* forms the basis of the so-called management model of shareholder value.

sale of goods and services desired by customers. Management is carried out in conditions of lasting economic balance and coherence between effectiveness and efficiency to be achieved from a long-term point of view. Customers are the source of resources necessary to recompense the other stakeholders sustainably and to ensure the survival and development of the company system. The role of management is essential to dynamically create and maintain a balance between the interests involved that do not automatically converge. The system of management objectives is "multidimensional"; but there is a primary general objective, of customer satisfaction and a series of secondary objectives that constitute constraints to reconcile over time. The executive who is inspired by this management philosophy must necessarily assume an "organizational personality," which can also be very different from his "individual personality." It is evidently a new personality linked to the responsibility of carrying out the task of "trustee" of various groups of people, who must "fix," mediate, and make compatible and sustainable multiple instances over time. Everything is done in order to achieve the "common good" and retain lasting collaboration within the company system.

With regard to general company objectives, it was mentioned earlier that Barnard is a pioneer. He believes that the company's primary objective is the creation of marketable services for customers and not profit, which is a constraint to satisfy appropriately.

The author, however, does not follow up on this original idea and does not include it explicitly among the codes of conduct that define leadership styles and their corresponding company management models. In any case, it must be admitted that the writer, in addition to having taken a clear position on the ends of the enterprise, has masterfully analyzed the relationship between the ends assigned to the company and the need to make effectiveness and efficiency compatible.[40] This need is the underlying problem of his theory of the cooperative system.[41]

12.6 There Is No Discussion of Ethical Codes or the Main Management Assumptions to Establish the Preferability of the Various Adoptable Leadership Styles

Barnard, as we have seen, points out that the different codes of conduct, combining, create a more or less complex "moral state" that influences the behavior of managers. The author is well aware that the quality of the codes affects the style of

[40] Barnard (1938), p. 156.

[41] In relation to the general objective of non-profit organizations, it must be remembered that Barnard defines this purpose as follows: the realization of institutional goals, in conditions of economic equilibrium (substantial accounting balance between income and expenses), of high returns and low costs. In addition, in this case the general purpose of the organization is not considered by the author as a code of conduct that contributes to defining the type of leadership exercised.

leadership and the overall management model adopted.[42] From his theoretical model, it can also be deduced that the quality of the codes influences "organization health," the preservation of the cooperative system, and the "outcome variables" (qualitative and quantitative).[43]

However, the author devotes little space to the subject. Above all, he does not develop sets of codes of conduct and alternative, potentially adoptable management principles, or evaluate these codes systematically in order to apply them to the management of companies. In other words, Barnard's theory does not involve the construction of alternatively feasible leadership and management models (each characterized by specific codes of conduct and by specific personal qualities of the leader); nor does it indicate, through systematic analysis, the relative validity of models for the purpose of improving the health of the organizational system, of keeping alive the cooperative system (balance between effectiveness and efficiency) and achieving satisfactory business results. This happened despite the fact that the reality—at the time when Barnard wrote—showed the existence and the adoption of very different management models, both in terms of their basic structure (ethical codes and management principles) and their validity in terms of quantitative and qualitative results. Perhaps then, the time was not yet ripe. It was not until the works of C. Argyris, 1953 and 1957, by D. McGregor, 1960 and 1966, of R.R. Blake—J.S. Mouton, 1964, and of R. Likert, 1961 and 1967, that we had this type of analysis. These works, it must be emphasized, however, had strong support from Barnard's conceptualization, which defined the concept of leadership and the relations between leadership and the other management functions and company result variables.

12.7 Final Considerations on the Real Philosophy That Permeates the "Cooperative Model" of Barnard

We will now reconsider Barnard's theory of leadership and the executive process to highlight what is, in our humble opinion, the real philosophy inspiring his cooperative model.

It is hard to understand clearly (without having any residual doubts) if Barnard tended towards a management philosophy based on a *socialization process* (in which employees' motivations and objectives are gradually adapted to the interests of the company expressed by the economic entity controlling the organization), or a *process of integration by reciprocal adaptation* between individual and company interests.[44]

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[42] The management model (consistent with what has been said above) consists of the function of leadership and the other management functions that are modeled by the leadership style actually adopted.

[43] See the synthetic diagram shown in Sect. 9.4.4 of this work. Barnard says clearly that the longevity of organizations depends on the quality of the ethical codes of the *executives* who lead them.

[44] This subject has been analyzed in various parts of the present work; see, in particular, Sects. 7.3, 7.4, 7.5, and 9.4.

The first management strategy is based on the aim to make people docile, to persuade and induce them, through authority and control, to respond adequately to the demands of organizational roles and the orders of executives.

The second strategy is based on the "fusion model" between the "personalizing dimension" (interests of individuals) and "socializing dimension" (overall interests of the organization). It requires that cooperation is developed by the creation of organizational roles and operational programs that allow participants to obtain rewards intrinsic to work, using the "principle of supportive relationships" and finally developing conditions that permit the establishment and achievement of high performance objectives.[45]

The first management philosophy is the traditional one, developed in the early twentieth century in a socio-economic context very different from today. This philosophy was dominant at the time when Barnard wrote. Currently it is still prevalent. The new management conceptions are spreading with difficulty and today represent a goal to be achieved in a distant future proceeding in small steps, also considering the fact that resistance to change is considerable.

Doubts on the propensity of Barnard for the "fusion model" remain, despite the fact that the author:

- emphasizes participation[46] and the building of an integrated "common decision-making system";
- underlines that the real source of authority is the acceptance of authority itself by subordinates; that there is a "zone of indifference" within which the acceptance of authority occurs and which cannot be used systematically, but only in exceptional cases;
- highlights that the effective executive must have a low profile, based on listening and mediation and must assume, in the end, the role of advisor, coordinator and, only in particular cases, that of authoritarian leader;
- enhances the importance of stimulating the development of an "attractive associative system" and "communion conditions" that create feelings of solidarity, social integration, security, and mutual support in personal attitudes[47];

[45] The model of "fusion" requires, in other words, that the integration between individual and company goals is realized through progressive mutual adaptation. Conversely, in the socialization model the purpose of integration of objectives is achieved by convincing and pushing organization participants to internalize values, attitudes, and behaviors that are in line with the interests of the company and to eliminate those that do not appear consistent with them.

A clear illustration of socialization and adaptation models can be found in Barrett (1970).

[46] Note, however, that Barnard considers participation as a "general incentive" and therefore it cannot be assigned to the individual; see, in particular, Barnard (1938), p. 147. This incentive, in essence, refers not to participation in the various phases of decision-making, but to the feeling experienced by participants of being part of a global project that gives visibility and prestige to the organization and, consequently, to its members. This is not an intrinsic motivational reward for the performance of tasks but "recognition of success" from belonging to the organization.

[47] Barnard (1938), pp. 146 ff.

Note that the development of an "attractive associative system" and the realization of "communion conditions" are two fundamental "general incentives" proposed by Barnard (see chap. X,

– clearly states (almost anticipating H.A. Maslow and D. McGregor) that a reasonably satisfied need no longer stimulates and that unsatisfied higher needs (self-esteem, respect for others and self-realization) cannot be adequately met with traditional material and immaterial incentives[48];
– declares that the creation and maintenance of a cooperative system requires the realization of compatibility between effectiveness (satisfaction of company interests) and efficiency (satisfaction of individual needs and objectives).[49]

Doubts remain for the reasons explained below.

Barnard starts with the assumption that the executive's task is fundamentally to stimulate people in the organization to cooperate. He recognizes that cooperation is not realized spontaneously and that there is no organization if the motivations of individuals are not compatible with those of the company, and therefore unless the motivations of people can be changed. He states explicitly that the individual is the fundamental factor of the organization, and thus, "regardless of his history or his obligation he must be indicated to cooperate or there can be no cooperation."[50]

As we have seen previously, Barnard's theory of cooperation is based on the use of a system of "induction to collaboration" which relies on two methods:

(a) method of objective incentives. Such incentives may be of a specific nature (which can be offered to individuals) and of a general type (which cannot be attributed to the individual, but give visibility and prestige to the entire organization and, indirectly, to its members);
(b) method of persuasion. This method aims to modify attitudes, behaviors, and motivations of participants and to induce them to respect the general objectives of the company and, in particular, to respond to the requirements of organizational roles. The method of persuasion includes—specifies Barnard—the use of coercion, the "rationalization of opportunities," and "the inculcation of motives."[51]

Barnard also clearly states that, in practice, it is impossible for any organization not to adopt a combination of the two incentive methods,[52] even if he excludes that coercion by authority can be adopted systematically and successfully.

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par. I). In our opinion, they can be assimilated in the application in company management of the "principle of supportive relationships" theorized by R. Likert.

[48] Barnard (1938), pp. 142 ff.

However, note that the author does not specify that to satisfy the higher-order motivations it would be possible (and convenient) to create conditions of organizational structure and operational functioning, to permit company members to obtain "rewards intrinsic to work."

[49] Barnard (1938), chapter XI.

[50] Barnard (1938), p. 139.

[51] Among other things, the method of persuasion allows people to be induced to satisfy the interests of the organization, ensuring that the objective incentives available to management are "adequate" and therefore sufficient to achieve the aim. This is very important when general incentives are not available or are ineffective.

[52] Ibidem, p. 141.

However, first we note that most of the "objective incentive systems" do not lead to motivational rewards intrinsic to work; they do not permit the gratification of participant's needs of a higher order in the performance of their roles. In other words, they do not allow them "to integrate by reciprocal adaptation" personal interests with those of the company. Indeed, objective incentivization and also the types of incentivization that Barnard defines intangible incentives[53] constitute—using the terminology of Herzberg, Mausner, and Snyderman[54]—*hygiene factors* and not *motivating factors*. The first prevent the dissatisfaction of personnel, but are not suitable to develop productivity; however, their lack (for example, inadequate remuneration, poor environment and working conditions, difficult organizational relationships, etc.) has extremely negative effects on satisfaction and performance. The category of "motivating factors" (which includes success in work, the recognition of success, the work in itself, etc.), conversely, has the effect of developing satisfaction and simultaneously increasing the level of productivity. Of course, the creation of the motivating factors in question is closely connected with the creation of the organizational structure and operational conditions capable of developing rewards intrinsic to the roles. For these reasons, it seems to us that Barnard's management theory is not clearly oriented towards the adoption of a "process of integration by reciprocal adaptation."

Secondly, Barnard strongly insists on the method of persuasion practiced especially with the tools of "rationalization of opportunities" and "inculcation of motives." One gets the feeling that, although not explicitly stated, underlying his theory of leadership and management, there are the objectives of "making human nature docile" and inducing people to internalize the goals and objectives of the organization using predominantly a "socialization" process rather than a "process of integration.".

However, examining his work as a whole and considering the time in which he wrote, it must be said that the author opened a path leading to the development of managerial models based on the "fusion" of interests of individuals with those of the organization. His theory on the necessary coherence that must exist between effectiveness and efficiency proves this statement.

In conclusion, it is necessary to recognize that Barnard offered a fundamental and original contribution to the construction of the foundations of the management edifice and also provided subsequent scholars with both the "blocks" to complete the building and the stimulus to use it for the good of humanity.

[53] It should be noted that most of the immaterial incentives proposed by Barnard (1938) in chapter XI are closely related and linked to the organizational position occupied, but they do not allow them to achieve rewards intrinsic to work.

[54] Herzberg et al. (1959) and Herzberg (1966, 1968).

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