

Chapter 10

Business Ethics from Below: Rethinking Organisational Values, Strategy and Trust

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Introduction

Complexity is a common feature of the management of organisations in contemporary society. The complexity is both external and internal to the organisation. Complexity also features in the problem of determining what the boundaries of an organisation are. Understanding complexity in and around contemporary business organisations requires revisiting the notion of strategy and of organisational identity or culture and values. The requirement of thinking about complexity in organisations and specifically business organisations also opens up business ethics definitions and debates in a new way.

Operating in a competitive environment requires constant change from organisations. If the competitiveness is global, then change in markets, suppliers, products and multiple aspects of the organisational environment are endemic. Internally, large multinational organisations also tend to exhibit more and more variation and specialisation, with many different business plans being executed simultaneously in order to remain competitive in different geographical areas of the world and with different types of business competencies. Flexibility is a key requirement. Exposure to global competition means that change within organisations is rapid and unexpected, and this leads to even more internal difference. Mergers and acquisitions add to these effects. In fact, the boundaries of organisations are shifting all the time in that “chains, clusters, networks and strategic alliances” dilute the notion of organisational boundaries (Thompson and McHugh 2002: 150). Difference within is no longer necessarily to be smoothed out but sought and even enhanced.

Whether one agrees with Castells that these are the effects of “informationalism” (1996) or those arguing for the notion of a knowledge economy – Mokyr (2004) provides an excellent economic history of the notion – is beside the point. It is clear that internal flexibility and external volatility and turbulence create a

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significantly more complex challenge for the management of organisations. The many levels of internal and external diversity and difference within an organisation mean that retaining or establishing identity becomes a more significant challenge than ever. Castells (1996: 151) calls contemporary business organisations “network enterprises”. Network enterprises have to produce flexibly, deal with changing configurations of corporate size and interaction with smaller and medium firms, come to terms with new methods of management, and be able to get the best out of inter-firm networking and corporate strategic alliances (1996: 152–164). Basically the organisational model shifted “from vertical bureaucracies to the horizontal corporation” between, we might add, different, changing and assertive components of organisations (1996: 164). For the sake of sustaining identity within an organisation, decision-makers within the organisation have to focus on keeping a sense of direction (or strategy) and a sense of coherence (or culture) in a context of turbulence or increasing complexity.¹⁰⁴

Turbulence is often seen as a threat to strategy processes in organisations. Turbulence implies unpredictability and that means that meaningful strategy cannot be developed, as the assumptions on which any particular strategy is built cannot be held constant. Even if strategy is seen as an emergent process à la Mintzberg and others (Mintzberg 1994, Mintzberg and Waters 1985), turbulence brings with it uncertainty. Severe turbulence is often regarded as making strategic action impossible.

In this context, Boisot (2000, 2003) and others (Ashmos et al. 2000, Montuori 2000) argue that extreme turbulence can be dealt with, if the strategies designed and implemented are such that they can absorb complexity and if these strategies do not attempt to reduce complexity unduly. Strategy is often seen as the task of reducing complexity and creating a framework for simplified decision-making on an operational level. When this is not possible, the conclusion cannot be that it is simply useless to think about strategy. The notion of the absorption of complexity provides an avenue towards understanding that it is not necessary to give up on strategy in turbulent environments.

If it can be assumed that reducing complexity where possible – and absorbing it where not – is good practice, business organisations and business leaders need to adapt their understanding of actions aimed at shaping organisational and corporate values and business ethics. Corporate or organisational values need not be an explicit part of the management agenda to prevail as they are, of course, created and sustained in the everyday operations, patterns and decisions of the organisation. Organisational culture, and tacit values that prevail without explicit attention to them are often governed by aims that are equally dependent on the assumption of stability. In fact, especially where no explicit attention is given to organisational and corporate values, these values are by definition a latent expression of the dominant

¹⁰⁴Although the argument that follows also applies in many ways to organisations that are not business oriented, the emphasis here is on business organisations.

patterns of the organisation and, if the processes within the organisation are predicated on stability, the values will follow suit. Ethical decisions function in the same way. Strategies that attempt to deal with turbulence will be held up or undermined, if the values that underlie existing patterns are not reflected and acted on. However, if initiatives around values are set up well, they may create better conditions for strategies to succeed in extreme turbulence.

The types of values that will support strategies that are suitable for turbulent conditions will require acknowledgement, incorporation and commitment to the internal diversity of the organisation. Difference can actually be good and should not have to be kept quiet in a singular dominant culture. The types of strategies that are suitable for turbulent conditions will equally require strategic diversity. However, this is a threat to control systems, to codes of conduct and explicit business ethics, to organisational integrity as often understood by managers and too much of what is understood to be management itself. Therefore, a revision of the role of trust in organisations has to be undertaken as well. Most of the trust literature focuses on trust between individuals in teams, networks, projects, etc. and on the trust that employees or workers in organisations have in the organisation and in the institutions that surround the operations of the organisation. This is all very relevant to the challenge of diversity in organisational strategy. However, the trust, or often more pertinently, distrust, of the employees and workers are a relatively unexplored aspect of trust. We may call this organised distrust. This has to be considered in effecting the kind of organisational change that will support the absorption of complexity into strategy that is needed in conditions of extreme turbulence.

Obviously there is a difference between what managers and decision-makers say about the nature and history of their strategies and what actually happens, and there is an equally significant difference between how strategies are actually formulated and executed and how theorists and advisors think it should be done.¹⁰⁵ One has to distinguish between dominant post hoc description, dominant practice and dominant normative theory, with many variations around each of these three levels of differentiation. The dominant post hoc description still seems to emanate from a rationalist revamp of the mostly messy and emerging dominant practice. Normative theory seems to be catching up with dominant practice, but has something to offer in that it is more reflexive and may be able to provide models that give a better overview of the process and requirements that can be so confounding to practitioners.

¹⁰⁵The level at which the strategy process is formulated and what it is focused on comes into play here. It may seem obvious that lower-level strategies can anticipate higher levels of predictability than higher-level strategies. At a functional level, strategies seem simpler than at the business, corporate or network levels of strategy (to use De Wit & Meyer's distinction between levels of strategy, 1999: 9) as the number of possible factors influencing the strategy increases with every expansion of the reach of the strategy. Arguments that go exactly in the opposite direction may also be advanced. Even though it may seem that functional-level strategies deal with more predictable and defined contexts, it may well be that major shifts are taking place without warning exactly at the functional level relevant to, for example, retail marketing strategy to youth in a particular country. These changes could be evened out on the aggregate level at business or corporate level. Therefore the arguments advanced here are deemed to be relevant to any level of strategy formulation.

In what follows I will attempt to reflect on dominant practices from the perspective of the theoretical material on strategy that is available and eventually from the perspective of a particular social theoretical argument. There is a normative and practical conclusion to the discussion in that I argue for the alignment of organisational values with insights from strategy. The argument for a broader view of business ethics is part of this discussion. Behaviourist views of business ethics that define business ethics in terms of the dominant economic ideology of the time ignore the fundamentally holistic nature of any ethical discourse. This is not only hazardous but cannot be sustained – ethical claims either become meaningless as ethical claims or draw in wider issues of a holistic nature (wider than the specific priorities of any one business organisation).

I will not spend much time on discussing how managers and executives explain strategies that worked and those that did not work to boards and shareholders (and sometimes to themselves!). Recounting stories of how strategies worked out and explaining why they did not is an important process that includes more than corporate politics, stock-market spin and self-belief. It is also a process whereby beliefs about the nature of human control over events are entrenched. March puts it well: “In a society, based on reason, rationality, and a conception of intentional human control over destiny, decision making [and for that matter, strategy] is a sacred activity” (1994: 216). To unravel the post hoc recounting of the story of how rationality and intentional human control have delivered (or not delivered) the results that the strategies were meant to deliver is a different topic.

Strategy and Turbulence

In the past, the dominant normative theory used to describe strategy as the process of a comprehensive review of all the relevant facts and a particular business perspective taken on those facts that would be enable exploitation of opportunities that become evident in the analysis of the facts. The sequence of discrete actions was functionally defined and normally consisted of five steps, i.e. setting objectives; strategic programming; budgeting; monitoring, control and learning; and lastly incentives and staffing (Chakravarthy and Lorange 1999: 114–116). Implementation is planned and executed as a set of pre-defined tasks. Andrews puts this succinctly: “The implementation of a strategy comprises a series of sub-activities that are primarily administrative” (Andrews 1999: 77). It starts with gathering the facts that are deemed to be relevant to the issue. These facts are available and their relevance is clear.

There are very few strategy experts and practitioners in today’s globalised and changing business environment that would still make a general call for strategy formulation that assumes that one is able to plan and then execute the plan as if these are two distinct stages and as if one knows what to plan for and what the consequences of planning and implementation will be. De Wit and Meyer (1999: 16, 96–139) talk about 10 “strategy tensions”, of which one is the tension between “emergentness” and “deliberateness”. However, most managers and strategy experts

would use this kind of distinction only as a foil for making the point that, although all strategy formulation has to start with some assumptions, this is only a start. The intention in strategy formulation is no longer to come up with 5-year strategic plans that assume a direct relation between plan and effect. Complexity is part of life. Therefore, strategic planning as a subject or discipline has been replaced with concepts such as “strategic intent”, “emergent strategies” and “entrepreneurship” (Boisot 2003: 38). These notions come from a variety of sources (Hamel and Prahalad 1989, Mintzberg 1994, Mintzberg and Waters, 1985, Pinchot 1985), but are all an expression of the realisation that predictable change and predictable outcomes of strategic initiatives are mostly improbable or usually unlikely.

A broad theoretical consensus therefore exists that strategy formulation in most contexts has to accommodate and integrate emergence as part of the process in order to have any sense at all. De Wit and Meyer (1999: 98) further distinguish between the planning view of strategy (described above) and the incrementalism perspective. They point out that incrementalists believe the planning view puts too much faith in “deliberateness” and that this is “misplaced and counterproductive” (De Wit and Meyer 1999: 100). One might take the 1994 Special Issue on Strategy: Search for New Paradigms of the *Strategic Management Journal* as an indication of a watershed in normative theories of strategy.

There are many proponents of the incrementalist view, but two of the best known and influential have been James Quinn and Henry Mintzberg. Quinn is an explicit proponent of logical incrementalism and describes it thus:

... logic dictates that one proceeds flexibly and experimentally from broad concepts toward specific commitments, making the latter concrete as late as possible in order to narrow the bands of uncertainty and to benefit from the best available information. (1999: 133)

Mintzberg is severely critical of the planning perspective and argues for the “invention of new categories” and against strategic planning as this “has been and always will be dependent on the preservation and rearrangement of established categories ...” (Mintzberg 1994: 107). He also argues that planned strategies seldom work out as planned and that allowing for emergence in the process of strategy development may well be more useful than trying to stick to a planned strategy.

To be able to integrate emergence in strategy formulation, a second broad consensus seems to be developing around the absorption of uncertainty. Strategy formulation cannot and should not only focus on the reduction of uncertainty, but is understood to be taking place within a range between the reduction of uncertainty and the “absorption of uncertainty” (Boisot 2000, 2003). Absorption of uncertainty is deemed to be part of strategy formulation in conditions of uncertainty. Uncertainty is the product of turbulent conditions.

Strategy in Turbulent Conditions

Polley (1997) points out that the use of the notion of turbulence in business can only be a metaphor and as such, it has to be used appropriately to dispel undue illusions as to the type of science with which one is engaging. He also points out that the concept

of turbulence carries with it two aspects that we would do well to keep distinct in our attempts to analyse organisations, namely notions such as attractors (associated with chaos) and the notion of bifurcation (1997: 456). I will take turbulence as a general metaphor indicating a large or infinite number of sources of variation in the environment of the organisation (see Landau 1944, where the physics of the problem found its first attempts at solution) or as “dynamic heterogeneity”, that affects both supply and demand (SubbaNarasimha 2001: 215). The point is that turbulence makes it impossible to predict and plan on the basis of those predictions. The causes of events are latent in the system, but can only be known after the event. This creates obvious uncertainty and concomitant discomfort and conflict (Boisot 2003: 46).

Boisot (2003: 47) argues that the appropriate response to the discomfort and conflict emanating from uncertainty should not be to simplify and consolidate positions, but to absorb¹⁰⁶ the uncertainty by becoming a learning organisation. Of course, this means managing to operate much closer to the edge of chaos than is comfortable. Furthermore, he points out that managers are not trained to do so, as most management training is analytical (Boisot 2000: 131). Boisot’s conclusion is that popular business literature shows evidence of an awareness of the need to move closer to the edge of chaos in that it calls for internal competition, agility in large firms and interpersonal networking (Boisot 2000: 132). This awareness has to be integrated and developed.

That variety within the organisation is a requisite for organisational success in changing environments is a conclusion that Lawrence and Lorsch (1967) came to long ago. This is clearly consistent with the cybernetic law of requisite variety (Ashby 1956) and Weick’s (1995: 35) point about the workings of a contour gauge. If this awareness is couched in the language of evolutionary change (as is often the case in cybernetics, organic adaptation and contingency theory), one has to caution that there is also something like “organisational mortality” (Montuori 2000: 70) and that entropy in organisations is only turned around or stayed by deliberate action. Organisations are not natural structures (Drucker 1993: 48–67, Giddens 1986: 263–274, Morgan 1986: 74) and, although we recreate them all the time (Weick 1995: 32), we need to be aware of what we are doing and constantly manage these processes, if they are to develop in a particular direction (Weick 1995: 182).

Contingency theories of management (Burns and Stalker 1961) have, in principle, a ready answer to the problem of turbulence, as they propose adaptation to the turbulence in the environment by management becoming more complex and varied, and empirical analyses framed in these terms also find that adaptation is taking place in this pattern (Größler et al. 2006). However, agency (whichever way this

¹⁰⁶The notion of the ‘absorption of uncertainty’ in strategic thinking comes from Pascale (1990) as noted by Boisot (2003: 47). However, absorption of uncertainty has a wider reference than strategic thinking as it is also used in data analysis, computer science and the natural sciences in general. There it seems to refer to the problem of inaccurate, false or incomplete information and how this is dealt with in models and analyses.

may be conceptualised) is not reflected upon sufficiently in such evolutionist theories and therefore attempts at thinking about the choices made when managers and decision-makers realise that organisations are facing increased turbulence are of interest (Ashmos et al. 2000).

The goals of organisations that set themselves up to deal with increasing complexity are stated (in lieu of a summary of insights from organisational complexity writers) as follows: “with multiple and conflicting goals, a variety of strategic priorities, increased connectivity among people, as well as structural variety intended to maximize the flow of information and meaning in the organization” (Ashmos et al. 2000: 577). At the same time others emphasise that group psychology and leadership direction are also important, for when “. . . turbulence increases[,] leaders must increasingly emphasise that some level of control is possible” (Smith and Saint-Onge 1996: 13). Obviously some organisations come to the conclusion that simplification is the solution to turbulence, but these organisations “. . . defy the prescriptions of Ashby (1956) and Weick (1975)” (Ashmos et al. 2000: 280).

The success of organisations that aim to absorb complexity rather than reduce it is evident from the empirical material studied by Ashmos et al. (2000) and one could also take cognizance of the results of adaptation studies to support this point (Größler et al. 2006). This supports the Boisot argument that increased turbulence can be dealt with in strategy processes, if the strategies are set up to absorb complexity rather than reduce it. However, other than the general conclusion that “managers will have to rethink their organization’s very identity” (Ashmos et al. 2000: 292), what the values of such an organisations will have to be and how they are to be approached are not made clear.

Values and Organisation

Management has become more sensitive to the need for reflection on the values of the organisation since Schein (Francis and Woodcock 1990, Schein 1987, 1990) and since recipes for the “cultural redesign” of organisations in contexts of uncertainty have been made available (Dolan and Garcia 2002, Dolan and Richley 2006). These recipes are mostly oblivious of the complexity of values *as a discourse* that becomes meaningless if not tied to the lifeworld and the required communicative rationality of the lifeworld – nothing is such a giveaway on the instrumentalist logic than the notions of “redesign” and “implementation”. Furthermore, these recipes are often devoid of indications of what content these values would have to enable organisations to manage strategically in turbulent conditions.

Types of Value Discourses in Business Organisations

The value discourses in organisations can be categorised under four types. The *first* deals with business ethics. Business ethics is, of course, more than the discourse on behaviour within the workplace and includes what Frederick (1995: 210) calls

“philosophic ethics” and “responsibility ethics”. However, within business organisations and in the training of managers in business schools, behavioural ethics holds sway. The *second* value discourse deals with the values individuals bring to business organisations by virtue of having a cultural and social identity. This may range from being a young female engineer to being Nigerian and all possible cultural and social connections combined with individual and personal traits. Human resource management and cross-cultural management experts are mostly seen as having to deal with the issues arising explicitly from this discourse. The *third* discourse that is related to values deals directly with the culture and values of the organisation as a whole. It obviously relates both to business ethics and individual and social identity issues, but tries to align these to the mission and reason for the existence of the particular business organisation. It is often an instrumentalist type of discourse. This is the discourse that we are primarily interested in this article. The *fourth* discourse deals with the values found in business organisations as an embodiment of the system from which they emanate, i.e. the capitalist economy. This discourse has an impact on all three the other discourses in that it sets boundaries that are tested frequently.

The Relationship Between Organisational Values and Organisational Strategy

In this chapter I argue that business organisations and business leaders need to adapt their understanding of actions aimed at shaping organisational and corporate values. If initiatives around values are set up well, they create better conditions for strategies to succeed in extreme turbulence. However, the very notion of *common values* may be a mistake, if it is taken to imply that values are understood and driven as the basis of the reduction of complexity and uncertainty. Actions aimed at shaping organisational values should deliberately focus on values that enable organisations to absorb uncertainty and complexity. This argument is now developed further with reference to Jürgen Habermas’ (1981) distinction between system and lifeworld and his characterisation of the lifeworld as “stocks of knowledge” with a different logic of rationalisation than the logic of rationalisation appropriate in system integration.

Common Values in Business Organisations

Business organisations are part of, and more specifically a function of, the more general system of the capitalist economy. The differentiation between economy, politics and religion is probably the single most important process of institutional differentiation that led to the development of modern Western society. A social systems point of view insists that the economy has a particular binary code (Miller 1994: 106) and that this is not incidental. It is also not without consequence. When fully

developed, the binary codes function as constructions of the totality without boundaries. Such autopoietic social systems function in such a way that everything that becomes relevant to a particular system is interpreted in terms of the relevant binary code and therefore made contingent (Luhmann 1986: 78–80). The environmental stimuli are also instrumentalised and objectified within a system that is set up to differentiate, code and thus reduce the complexity that comes with social phenomena. The capitalist economy is efficient because it reduces social things to commodities with market values. Business organisations are effective enactments of that logic as they can reduce complexity by being business organisations and not families, welfare organisations, religious organisations or sporting institutions at the same time. That is why no one can ever argue that they did not know that the business that they work for has to make money (Luhmann 1982: 75). It is an institutionalised part of the reason for the existence of business organisations.

It is important to make this clear whenever organisational values are to be analysed, since the concept of values seems to carry a baggage that makes it sound either sentimental and irrelevant to hard-nosed managers, or mythical and profound to enthusiasts. It is clear that the consequence of the first perception is lack of commitment on the part of management. The enthusiasts, on the other hand, create the problem of unfulfilled expectations well described by Burdett:

... a values orientation, presented as a means to orchestrate a common mind set and where the *other critical elements of culture* are not taken into account, is unlikely to have lasting impact. Simplicity, without consideration as to the holistic nature of the challenge on hand, is inevitably a recipe for failure. And yet managers, in attempting to provide a behavioural platform congruent with the organization's strategic intent, focus on values with the clear expectation that somehow, magically, everything else will fall into line. The reality is somewhat different: a car may well have a good engine but if the transmission is damaged it still will not run. (1998: 36–37, my emphasis)

The issue is what the other elements of culture are that Burdett refers to. One such element is the disjunction perceived by many managers between the values discourse and business imperatives. A better understanding is needed of the interaction and dynamics of organisational values and the world outside the business system. This should enable both the hard-nosed and dewy-eyed to take a more appropriate stance in organisational values discourses.

There are two reasons for wanting to do this, which are relevant here. The one is that values discourses will be empty at least or alien at worst, if the connection between values and the wider world of the organisational culture is not taken into account. The second is that the specific requirement for strategy success in turbulent environments is that values that enable the absorption of uncertainty are more difficult to cultivate than values that enable the reduction of uncertainty. My view is that Habermas provides a good structure for insights that could deal with these problems.¹⁰⁷

¹⁰⁷The works of Giddens (1986, 1991) or Bourdieu (1977, 1990) are other possible options.

Habermas

The explicit values of business organisations are often a mix of the necessary values that these business organisations have to have by virtue of being businesses and the values that seem right in order to demonstrate the humanity of the organisation. This is not as ridiculous as it may seem. The problem is the fact that these elements are often a jumble. It is important to understand that the logic of instrumental reason is needed in business organisation. It is even more important to understand that logic has a history and that the values that emanate from it are connected to choices that accumulated over time. If the real and undiluted values of the capitalist business organisation seem to be a threat to the humanity of the society within which it is functioning, Frederick (1995) argues that such values were not original to business. Habermas argues that such threatening values are not irreversible if the connection between instrumental rationality and communicative rationality is not lost in a violent overthrow of the logic of communication that is aimed at understanding (Couture 2002). One form of such violence will be the *imposition* of organisational values.

Habermas' Conceptualisation of the "Lifeworld" as a Critique of Social Systems Theory

To understand this argument some attention must be focused on Habermas' distinction between system and lifeworld. This distinction enables an explanation of change in system dynamics and change on a fundamental societal level. Social complexity is constantly developing and one of the most important dynamics relates to the relationship between clearly demarcated and seemingly independent systems (or sub-systems depending on your terminology) and what may be called the "lifeworld" from where these systems come and on which systems depend for their creation, existence and change. Here it should be no surprise that reference is made to the debate about system and lifeworld that raged between Luhmann and Jürgen Habermas in the seventies (Habermas and Luhmann 1971).

Habermas develops the idea of communicative action and especially the notion of the lifeworld as another aspect of social interaction in modernity next to that of systems. Communication is not only determined by systems and the meanings created in systems. Eventually all meaning depends on the lifeworld. The relevant point around which Habermas' critique of Luhmann revolves is whether Luhmann can access the "communicative everyday practical knowledge" which individuals employ to make decisions if he does not incorporate a theory of action and thus change (Habermas 1988: 84). By distinguishing the lifeworld from the sub-systems making up the modern societal system as a whole, Habermas opens up the space for understanding the role and modern nature of practical knowledge. In his view the lifeworld has very much been part of the development of the functionally differentiated modern society. Habermas' distinction between lifeworld and system is meant as a critique of functionalist reason (which would include systems theory).

Habermas argues that one can only understand modern societies if one understands that social integration and system integration have been separated as social processes. Durkheim

directs our attention to empirical connections between stages of system differentiation and forms of social integration. It is only possible to analyse these connections by distinguishing mechanisms of coordinating action that harmonise the action orientations of participants from mechanisms that stabilise non-intended interconnections of actions by way of functionally intermeshing action consequences. . . This distinction between social integration of society, which takes effect in action orientations, and a systemic integration, which reaches through and beyond action orientations, calls for a corresponding differentiation in the concept of society itself. (Habermas 1987: 117)

“Action orientations” refer to the lifeworld, while “action consequences” refer to social structures and systems.

The lifeworld is understood to be the horizon within which all communication takes place and is possible. The process of coming to understanding takes place against this background. The lifeworld concept is defined as “background knowledge that must tacitly supplement our knowledge of the acceptability conditions of linguistically standardised expressions” which is “*implicit*”, “*holistically structured knowledge*”, which “*does not stand at our disposition*, inasmuch as we cannot make it conscious and place it in doubt as we please” (Habermas 1984: 336, his italics). These “stocks of knowledge” (Ingram 1987: 116) are handed down in culture and language. Changes which affect culture and language obviously affect the lifeworld as well.

Rationalisation and the Lifeworld

In general terms, in real life people cannot objectify the whole of the lifeworld within which communication takes place. The lifeworld is the horizon within which communication takes place. On the other hand, we use and review aspects of the lifeworld continually in our attempts to make sense of life.

Aspects of the lifeworld are reviewed primarily when a loss of meaning threatens “cultural knowledge”, when social conflict and anomie threaten social integration and when experiences of alienation and psycho-pathologies threaten socialisation and identity (Habermas 1987: 140–141). But our ability to reflect on problems of social integration becomes greater when society is in the process of differentiation and when prescriptions of an “opaque source of authority” (White 1988: 98) are no longer strong enough to control the process. This is the case only in “late modernity”.

Rationality is not only present in the instrumental rationality of the functional systems. Reason is also part of the way in which modern people solve problems, which go beyond the functioning of those systems. The differentiation of types of rationality in terms of their relation to communication and the lifeworld is crucial (Habermas 1984: 238). The rationality of functional systems is not the rationality at work in communicative action. Communicative rationality is orientated towards

understanding and this is the “preferred” mode of rationality in modern lifeworld contexts.

Society, individuals, and groups are continuously at work on formulating and reformulating common understandings, on coordinating action and social integration, and on formation and development of personal identity and socialisation (Habermas 1987: 135–140). But in non-modern societies the cultural knowledge, social norm formation and personal identity were integrated with each other and with system integration. Modernisation has brought about the uncoupling of social integration and system integration.

[T]he further the structural components of the lifeworld and the processes that contribute to maintaining them get differentiated, the more the interaction contexts come under conditions of rationally motivated mutual understanding, that is, of consensus formation that rests *in the end* upon the authority of the better argument. . . . (Habermas 1987: 145, his italics)

This process leads to the lifeworld being gradually rationalised and differentiated. Modernisation is therefore also a process of differentiation of the lifeworld and not only of functions and systems.

However, the uncoupling of systems from normative questions appears to destroy the all-encompassing lifeworld. “They congeal into the “second nature” of a norm-free sociality that can appear as something in the objective world, as an objectified context of life”. “[T]he social system definitively bursts out of the horizon of the lifeworld, escapes from the intuitive knowledge of everyday communicative practice, and is henceforth accessible only to the counterintuitive knowledge of the social sciences. . . .” (Habermas 1987: 173). However, on a theoretical level, this appearance can be unpacked with the help of a lifeworld perspective.

The second nature of a “norm-free sociality” leads to a situation where change in the lifeworld has often been seen as dependent on the change in the systems. Habermas claims that “the opposite is true; increases in complexity are dependent on the structural differentiation of the lifeworld. . . .” because every new “mechanism of system differentiation must, however, be anchored in the lifeworld; it must be institutionalised there” (Habermas 1987: 173). The process of institutionalisation of systems in the lifeworld can only come about if the lifeworld is sufficiently rationalised and differentiated itself to be able to accommodate the new level of system differentiation.

Communicative Action in Modern Society

Habermas holds that the progressive rationalisation of the lifeworld in modernity makes it possible for social actors to reflect on society and to reflect on some of the common understandings, the norms and integration and the processes of socialisation¹⁰⁸ that make up society.

¹⁰⁸The lifeworld and communicative action can be rendered incapable of providing answers to social problems. When the lifeworld is instrumentalised and seems to be just another sub-system

Functional systems are the easy solution to the problems of contingency created by modernity as they code and decide much of the meaning that we deal with. Most decisions made by modern actors are patterned and need to be routine. The complexity of modern society is such that it makes careful reflection of every aspect of life impossible. At the same time, the authority of tradition or an elite class can no longer take over the responsibility of actors in modern life. Therefore, when one takes the contingency of meaning in modern societies into account, a very necessary complement to the differentiation of systems is found in the differentiation of the lifeworld. This is the arena in which the functionally differentiated systems are anchored.

The notion of the uncoupling of systems from the lifeworld may seem to go against the above argument of the necessary anchoring of systems in the lifeworld (Baxter 1987: 69). But as Baxter points out, “[b]esides the inputs of labour-power, demand, taxes, and mass loyalty, Habermas acknowledges that the economic system depends on certain patterns of value and motivation that are required for successful action within economic organizations, and that the political system depends on legitimisation” (Baxter 1987: 72). These “patterns of value and motivation” are no longer necessarily prescribed by authority and tradition nor by the instrumental logic of the systems which depend on them. This opens up scope for consideration of value discourses not defined by the logic of functional differentiation.

Strategy and Types of Organisational Values

The ambivalences of the organisational values discourses in modern businesses can be illuminated to some extent by a discussion of Habermas’ ideas. As indicated earlier, there is a need for the alignment and reduction of values complexity in organisations. In business organisations this will be a business-oriented reduction. However, if the tie between the system values and their origin in the lifeworld is lost, it may be threatening or at least empty talk for managers to assume that the values of the organisation are to be accepted without qualm by all. There has to be a shared understanding that the values of business are acceptable to society and to individual human beings. That means that it must be possible to at least perceive a link between system rationality and social rationality.

Such a link has to be established and continually re-established when an uncoupled system begins to hive off from the rest of social life into something that is only instrumental. If such a link is no longer perceived, attempts at fostering coherence and direction on the basis of values will turn on themselves and become, at best,

of modern society, it is impossible to activate the communicative action necessary for reflection on cultural, social and identity matters. Two phrases dominate Habermas’ views on the subject. These are the ‘colonisation of the lifeworld’ and ‘cultural impoverishment’. We do not need to consider these issues here as the problem at hand is not a critique of the capitalist system but coming to an understanding of the dynamic between system and lifeworld values from an organisational point of view.

useless exercises. If the link is perceived to be lost, there is only one way forward and that is a general rethink of what the organisation stands for in society, not just in the business system.

Coming back to the more specific issue of strategy, one would probably have to anticipate the need for such a rethink anyway when turbulence threatens an organisation. Turbulence creates uncertainty and uncertainty creates conflict. The instrumental logic that seemed to have worked is no longer self-evident. At the same time, it is not possible to have such a rethink and in the meantime to cease being a business organisation. It is also not possible to objectify the entire world of social assumptions or stocks of knowledge that give rise to the business system or any organisation. But there can be no limit to the questions that may legitimately be asked.

Coming to the issue of values that are appropriate to strategy processes in turbulent conditions, the aim of common values has been problematised from the perspective of handling uncertainty and complexity. Habermas can help us see what procedures we need to institute and what limits are to be set to be able to develop values that will facilitate the accommodation of the requisite variety, difference and conflicting goals within the strategic process. The key is the logic of communicative rationality. Organisations need not only the instrumental logic of the system within which they are positioned; to be successful in turbulent environments, social integration has to take place in addition to, or as foundation of, system integration. That means that the notion of common values has to include values that are not only oriented to the establishment and continuation of the system, but also oriented to the rational and human establishment of society, community and individuals. It furthermore means that the “common” in “common values” cannot mean that these values function as reductionist rules, but rather as a moving frame with space for diversity and difference.

Sushil (2001) argues that flexibility seems to threaten values in general. However, he argues apodictically and in keeping with Indian-style philosophy that flexibility cannot be value neutral, but that a higher understanding of these values is developed that “understand[s] the logic of these values on a spiritual plane and [apply] them in an holistic manner” (Sushil 2001: 865). This sounds vague and indigestible to most managers trained in a Western frame of mind – even though there is a growing demand for spiritual perspectives on management. What one can learn from this is not too far removed from Habermas’ perspective on the lifeworld! Values are to be developed in a rational discussion that aims to understand connections and is holistic in procedure. Understanding values on a “spiritual level” means that values enable flexibility and reflection on the relationships between the organisation and society at large.

Many have argued for involvement and participation (Montuori 2000:71) as basic to successful organisational strategy supported by a culture that recognises difference. This is not simply a ruse, but enables the notion of “drawing on the full intelligence of the organisation” (Wheatley 1994) that will encourage proactive change. There is also some evidence (Miron et al. 2004) that an inclination to be innovative does mean opposition to values that promote quality of performance.

These values are procedural in that they refer to the nature of relationships between members of the organisation and to the structure of the discourse. Recognition of individuality, respect for diversity and difference, and the commitment to reaching inter-subjective understanding on a social and system level are needed. Habermas' ideal speech conditions form the basis for the exploration of this. However, one may also frame these values in more substantive terms. Trust is one of the substantive requirements that would enable an organisation to generate useful strategies in turbulent conditions.

Trust, Strategy and Complexity

Trust is needed on a very real level (Loren 2002). If this does not exist and is not developed, the procedural framework proposed above will not be instituted in either the system or in its wider social context. Managers have to trust themselves and the people of the organisation to be able to engage in the kind of discourse that is required in communicative rationality – that is rationality that is not instrumentalised but oriented towards understanding and human life. If this is not possible, it is unlikely that the real conflicts between people and between the system and human sociality can be discussed and that a resolution of that conflict can be found that will legitimise the system in the lifeworld. It is also unlikely that the kind of conversation will be possible that will make room for diversity and difference.

The literature on trust is extensive and definitions of the notion are varied.¹⁰⁹ In this context the distinction between different types of trust is of immediate relevance. Trust is not only interpersonal but, at least in organisations, also institutional and structural. It has to be understood in systemic terms. However, the literature on this aspect focuses attention on the trust that employees and workers have in the organisation and in the institutions. This ranges from detailed analyses of the trust of employees in the management mechanisms and controls within which they operate, to the general context of modern society and its institutions within which this takes place.¹¹⁰ The more detailed analyses show that management mechanisms and controls have to be viewed as substantively fair, enforced equally and transparent (Bachmann 2003: 65, “institutional trust” here); that strong controls limit interpersonal trust as cooperation is seen as compliance to rules (Mayer et al. 1995: 727); and that employees taking on roles and attempting to learn and do new things need to be supported by the organisation (Möllering et al. 2004: 559).

All of this is very important and the literature is very developed on a theoretical level, while the empirical research is becoming voluminous. However, it seems that there has not been direct consideration of the situation where the employee and the

¹⁰⁹See Arnott (2007), Fukuyama (1995), Gambetta (1988), Kramer and Tyler (1996), Luhmann (1979), Nooteboom (2002), Nooteboom and Six (2003).

¹¹⁰See Beck (2001), (1988), Giddens (1991)

decision-maker have to feel trusted to be able to make decisions and follow a general strategic intent without absolute clarity (even to the agent or team themselves) about the alignment between particular actions and the necessarily vague strategic intent. Equally pertinent is the experience of many employees and workers in large organisations that the system within which they are supposed to be making fairly independent decisions in order to be able to pursue divergent aspects of a general strategic intent does not trust them. One might talk of structural distrust, not in the usual sense of individuals not trusting the structures, but in the sense that individuals experience active distrust in them emanating from the control systems of the organisation in which they operate.

There are a number of interesting starting points for consideration of this issue. Most of them emanate from the management literature around control and risk management in organisations. The arguments for flat structures, cybernetic feed-back loops and learning, etc. (Morgan 1986, are as good a starting point for these arguments as any) are all concepts that can be considered with a view to developing perspective on how organisational controls can be adjusted to limit the level to which employees feel distrusted by the organisation and are able to make decisions that are not patterned in a pre-existing framework and therefore appropriate for the absorption of complexity into strategy processes. It is clear that experiences of distrust lead to more distrust (Zand 1972, and a slew of research publications after that) and this has to be countered on the structural level as well.

A different angle is visible in Sitkin and Roth (1993). They have shown that organisational or institutional trust or mistrust also has to be understood in terms of the level of value congruity or incongruity experienced by members of the organisation.

Distrust is engendered when an individual or group is perceived as not sharing key cultural values. When a person challenges an organization's fundamental assumptions and values, that person may be perceived as operating under values so different from the group's that the violator's underlying world view becomes suspect. (1993: 371)

The question is what happens when the system is set up in a way that indicates distrust of any individual. If the bureaucratic procedures of an organisation are very restrictive or elaborate, it does communicate distrust. Such organisational control mechanisms carry latent value connotations that may limit or denigrate diversity and difference in strategic operations.

When one reads the material on organisational trust (trust of individuals in organisations) with that of Sitkin et al., an important deduction can be made. The argument about value congruity has to be reciprocal. If the individual can only be trusted when there is congruity between the values of the organisation and the values of the employees, and the individual can only trust the organisation when there is congruity between the values of the individual and the organisation, a reciprocal relationship has been established.

The argument has to be developed in more detail as it makes a significant difference whether the values about which there are divergent views emanate from operational, organisational culture, management, strategy, or social interface levels.

Reciprocal value congruity may be more of an issue in terms of the organisation's ability to work with strategic processes in turbulent conditions and thereby deal with complexity if the values about which there is divergence are about something like following procedure directly rather than something like being the best.

Conclusion

For organisations to be able to devise and realise strategies in conditions of complexity generally and conditions of turbulence in the environment specifically, there needs to be sufficient difference and diversity internally. In some ways, this diversity will be thrust on them by the networked and interlinked nature of business in contemporary global competition. But there is significant resistance to this from management attempting to keep it simple and coherent in ways that make the organisation more manageable. A better approach could be that individuals and small collectives like teams are managed within a values framework that does not constrain diversity but supports it, while at the same time also being clear and honest about the economic and business parameters within which this happens.

Conceptualisations and operationalisations of business ethics that are limited to behaviourist prescriptions and/or by the dominant economic ideology of business organisations in general will, for the same reasons, fail as ethical precepts. Many initiatives and initiatives aimed at business ethics development are internal to business organisation as a class of organisations and are bound to the meanings that are self-evident in that context but not necessarily in a wider societal and human context.

The point of the excursion into Habermas' conceptualisation of communicative rationality and the lifeworld is that establishing and sustaining a set of values that supports diversity, while also creating the basis for dialogue on the economic and business parameters of the organisation, require a different type of values initiative and ethical approach than that found in most organisations. It requires a process that is oriented towards understanding and cannot be sustained if an instrumental logic drives the entire initiative. This does not mean that instrumental logic does not apply and should not be incorporated, but that it should be based on or framed within a broader understanding that is developed in social lifeworld terms and not just in system terms.¹¹¹ In a homogenous context this part of the process happens tacitly. In a heterogeneous context, such a process cannot be expected to work if it is not conceived and articulated more explicitly. This may sound esoteric, but if one considers what really happens in strategic planning sessions that actually have an impact and that work well, it is very often the case that the framework understandings about social lifeworld issues develop during such processes. Very often, executives and managers complain that they have not really achieved much in the

¹¹¹These ideas are echoed in management literature: Bürgi and Roos (2003), Shaw (2002), Von Krogh and Roos (1995).

strategic planning process, but actually, they have established certain agreements on social lifeworld matters that provide the basis for the strategic intent that flows from the planning sessions. This has not been established empirically, but is certainly worth considering if one tries to explain the time and money that is spent on these organisational processes.

The process of reaching understanding on a social lifeworld level is even more dependent on trust than the process of developing and realising strategies that are not very clear and very specific. Both these processes are dependent on trust between individuals and between individuals and the organisations. From Sitkin and Roth (1993) we can see that value congruity between organisations and individuals is really important in the development and sustaining of trust in organisations. From the literature on turbulence and complexity, we can see that the types of values that are needed in complex and turbulent conditions have to support diversity and difference. A behaviourist view of business ethics that focus on codes of conduct will have to be redrawn in the same fashion and require a wider frame of reference. From the lifeworld literature, we can see that these values can only be created and sustained if there are processes that make dialogue and understanding possible (Downs et al. 2003, Hammond and Sanders 2002). Not all of these processes have to be to be explicit and designed, and the flow of these processes cannot be determined by an instrumentalised approach either. However, this matter needs to be given attention, if these processes are not to occur only when there is a crisis (Richardson 1995). The logic of the system of which business organisations are a part is just too strong and too instrumentalised in their movement towards seemingly self-evident goals to allow for real dialogue on the social lifeworld level. The logic of management that wants to keep control and order is an equally strong and parallel force that constrains diversity and imposes an identity on organisations that cannot deal with turbulence.

The simple truth of Cilliers' (2000: 26) overview of management issues in the light of complexity is that "[c]omplex organizations cannot thrive when there is too much central control. This certainly does not imply that there should be no control, but rather that control should be distributed throughout the system". This applies also to strategy processes in organisations that are not only complex themselves, but face an environment that is turbulent and therefore complex in that sense as well. All of this depends on the inclusion of values that support diversity in the culture of the organisation and the existence of reciprocal trust in the organisation between individuals, individuals and the organisation, and in the organisational controls and the individuals and groups they control.

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