

# Managing in the New Moral Culture

*John Hendry*

2004

“Business and morality”. Say those words together in the company of non-business people and you immediately conjure up images of business and *immorality* – of the corporate scandals surrounding Enron, WorldCom and Parmalat, of the contentious environmental, employment and marketing practices of multinationals in developing countries, and of CEO “fat cats” and “payments for failure”. For many people today, business appears deeply and inherently immoral.

For many of those who actually work in business, in contrast, morality is simply not an issue. The conventional wisdom, promoted by generations of managers and consultants, and by the business schools that train them, is that as a mechanism for wealth generation in society business is intrinsically good, but that its management is an essentially technical and amoral occupation. The function of business is to coordinate inputs and activities so as to meet the needs of customers and deliver returns to shareholders. The function of business managers is to allocate resources in an economically rational way so as to maximize the efficiency of this process. Of course there will be occasions when individuals behave badly, in business as in any other walk of life, but, it is argued, these have nothing inherently to do with business itself.

Both these perceptions are deeply ingrained, but both are misleading. And they both tend to obscure the subtle but very important ways in which business and morality really are connected. Businesses

managers and other employees who are members of that society. They have their own distinctive cultures and operating procedures, but they also build on and reflect the culture, and in particular the moral culture, of society at large. Over the last twenty years, influenced in part by the rise of business itself as an increasingly powerful and dominant institution in society, but also by deeper cultural and technological changes, this moral culture has changed dramatically. And as moral culture has been has changed, so have the ways in which businesses are organized, the tasks of management and the challenges of business leadership.

Whether these changes have much to do with the current wave of corporate scandals is doubtful. Business enterprise has always been prone to bubbles, bubbles have always created temptations, and there have always been some entrepreneurs greedy or foolish enough to fall prey to those temptations. The changes have, however, sounded the death knell of the concept of management as amoral technique. That concept was always something of a myth, as real managers have always been human beings and never just technicians. But in the context of contemporary moral culture and the organizations it has spawned it has become the very opposite of reality. The technical choices today need relatively little attention from management. They can safely be entrusted to market mechanisms and expert information systems. The task of the manager is instead the political and moral task of holding together, balancing and directing towards a common end the diverse entrepreneurial energies and interests that the new organizational forms have released.

### *The evolution of moral culture*

To understand the recent change in moral culture we need to go back into history. Civilized societies have always been characterized by the co-presence of two contrasting sets of principles governing how people live their lives. One of these is associated with what we might think of as traditional morality, the morality of obligation or, in cultural

society, or the morality of self-interest.<sup>1</sup> Traditional moral principles allow for a modicum of self-interest, but their emphasis is on people's obligations and duties to others: duties of honesty and respect, fairness and equity, care and assistance. The principles of market morality also impose some obligations, but these are relatively limited and their emphasis is competitive rather than cooperative, on advancing one's own interests rather than on meeting the needs of others.

From the dawn of civilization until very recently in history, the principles of traditional morality were clearly dominant. Social behavior was regulated by the dominant hierarchical institutions of church, state, and community, all of which acted as traditional moral authorities. Even businesses were structured as traditional hierarchical moral communities, with the obligations of managers, whether in the traditional family firm or in the modern bureaucratic business organization, mirroring those of citizens in society at large. Behavior according to the morality of the market was accepted as necessary for the economic growth and development of a society and entrepreneurs, like artists, were valued for their ability to innovate and take risks. But entrepreneurial self-interest, like artistic free expression, was also seen as a potential threat to the traditional moral order. It was permitted only under license, so to speak, in carefully circumscribed arenas and subject to a range of regulatory safeguards.

Over the centuries, these safeguards were gradually relaxed, and by the second half of the twentieth century business enterprise had become an integral part of society. But it remained very tightly regulated, and its social practices remained closely tied to those of society at large, with its traditional morality of obligation. Up until at least the 1970s the rules of behavior prevailing in business organizations were for the most part (though there were always exceptions) those that had always prevailed in a family or local community.

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<sup>1</sup> For the foundations of the strand of cultural theory used here see Mary Douglas, *Natural Symbols: Explorations in Cosmology*. London: Routledge.

of the constraints of both domestic and global regulation, the institutions of business and finance have grown massively in power and influence. Meanwhile, the traditional moral authorities of church, state, family, community and education have all been seriously weakened.<sup>2</sup> Enabled by the automobile and new communications technologies, changing, suburbanized lifestyles have weakened people's traditional moral ties, while television has played havoc with traditional moral sense making. Economic and instrumental forms of reasoning, rooted in the ideology of market culture and based on the principles of self-interest, have been applied to areas that had previously been the preserve of moral feelings and beliefs, dominating political discourse and changing the way we think even about our own families.<sup>3</sup>

As a result of these and other, related developments, the morality of self-interest has acquired a social legitimacy to match that of traditional morality. Traditional moral principles are still very important and still govern people's lives, both directly and indirectly,

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<sup>2</sup> The declining authority of the church is much less apparent in the United States than it is in other developed countries, where religion has become very much a minority interest. Even in American society, however, the moral authority of the church has become weakened and fragmented, and the responsibility for moral judgement thrown back onto the individual.

<sup>3</sup> In this short paragraph I have tried to sum up three whole chapters of my book, *Between Enterprise and Ethics: Business and Management in a Bimoral Society*. Oxford: Oxford University Press, 2004, which themselves draw on a wide range of research by other people. Doing justice to them all here is impossible, but a few of the key texts are M.P. Baumgartner, *The Moral Order of a Suburb*. New York: Oxford University Press, 1988; R.N. Bellah and associates, *Habits of the Heart: Individualism and Commitment in American Life*. Berkeley: University of California Press, 1985; R. W. Fevre, *The Demoralization of Western Culture: Social Theory and the Dilemmas of Modern Living*. London: Continuum, 2000); Robert D. Putnam, *Bowling Alone. The Collapse and Revival of American Community*. New York: Simon & Schuster. 2000; and Alan Wolfe. *One Nation After All*. New York: Viking.

that people are no less moral than they were a generation ago. But their morals are no longer imposed on them by society, and in a wide range of situations the traditional precepts are no longer binding. Where once people followed authority, they must now become their own moral authorities, weighing the principles of traditional morality as best they can against those of a legitimate self-interest. To put it another way, the two sets of principles by which people govern their lives are no longer confined to separate, well-defined arenas. Their ranges of application overlap significantly, and in many situations it is no longer apparent which should take precedence. The result is what I have called in my book, *Between Enterprise and Ethics*, a bimoral society.<sup>4</sup>

Because the change in moral culture has come about very recently and very quickly, and is at least partly attributable to recent advances in media and communications technologies, some writers, such as Francis Fukuyama,<sup>5</sup> have suggested that it is just a temporary blip, and that once the information revolution works itself through traditional moral authority will be reasserted. A careful historical reading suggests, however, that the change has deep historical roots. What we have seen over the last few decades is not something that has arisen out of the blue, but an acceleration of processes that have been well under way and gathering pace at least since the Enlightenment of the eighteenth century. It is very unlikely to be a temporary blip, of merely transient significance. What the long-term holds in store is impossible to predict. It may well depend as much on how the growing world tensions between cultures are resolved as on developments within our own, Western culture. For the foreseeable future, however, and for the expected duration of today's business organizations, management careers and personal life-projects, the bimoral society is here to stay.

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<sup>4</sup> See note 3 supra.

Any change as profound as that I've been describing inevitably has widespread implications, and the bimoral society has important implications for family and social life, for education, for politics and governance. But it is the implications for management on which I want to focus here. As the moral culture of society has changed, so has the structure of business organizations. Business has always been marked by market culture and directed by self-interest, but in the business bureaucracies of the post-war era these characteristics were well hidden. The route to competitive success was through large-scale coordination, long-term relationships and accumulated experience, all of which were well served by an organizational culture in which loyal service was rewarded and traditional moral obligations prevailed. Neither the interests of the business and its shareholders nor those of its managers needed to be asserted, as both could be achieved by the observance of traditional moral principles.

As the competitive environment changed and heavy bureaucratic structures began to hinder rather than to enhance competitiveness, this communion of interests began to break down. Companies continued to demand loyalty from their employees, but they could no longer afford to give it in return. Employees continued to profess loyalty and commitment, but with their security shattered they were increasingly forced to look after their own interests in a competitive struggle for survival. Deprived of the traditional moral compact that had been their great strength, old-fashioned bureaucracies collapsed under their own weight, and new organizational forms emerged.

Contemporary business organizations take a wide range of forms, from the highly rigid and bureaucratic to the highly flexible and, to use Henry Mintzberg's evocative term, adhocratic. In cultural and moral terms, however, most are hybrid forms in which the tensions of the bimoral society are clearly reflected. On one hand, most business organizations today retain significant elements of bureaucracy, in particular a strong vertical dimension. Apart from the CEO, every manager has a boss, and every manager is a boss. The vertical

significant power differentials, and because they are relationships between people, living in a society that recognizes and values the principles of traditional morality, these power differentials carry perceived moral obligations. Most managers still feel a moral duty to serve their employers and support their bosses, by working hard and to the best of their ability. They also feel a duty to look after, as best they can, the employees who report to them, people for whom they are morally as well as financially responsible.

On the other hand, these same business organizations are also structured according to the rules of the market. Self-interest is expected and even encouraged. People are expected, in particular, to look after their own careers and are employed on contracts that offer little or no security. The dominant ideology presented by the corporation is that of the free market, with employees treated as free agents, and on this view of things the power differentials carry no moral obligations. Employees are free to change their jobs, and employers are free to change their staff: it all comes down to supply and demand.

Linking these two cultural elements are organizational devices that fit properly into neither: teams and networks. Many contemporary businesses still look from the outside rather like traditional bureaucracies, but most are no longer structured round the tightly defined “offices”, each responsible for a specific task (and located, symbolically, in a separate room), and rigid reporting lines of classical bureaucracy. Job definitions are now much broader and more flexible, channels of communication take the form of extended networks, and the core operating structure is the team. For teams to work effectively, they need high levels of freedom, autonomy, and flexibility, all of which are anathema to traditional bureaucracy. They also need to operate as traditional moral communities with high levels of mutual trust, loyalty and commitment, all of which is anathema to market culture. In the right cultural context they can be extraordinarily effective, and it is no accident that they have flourished in the context of the bimoral society, but they are also inherently vulnerable to the tensions of that society.

## *Managing in a bimoral world*

In this context management, or being a manager, is beset by moral tensions. Managers today are responsible, as managers always have been, to their immediate superiors. But whereas other responsibilities could once be subsumed under that, they are now quite separate and pull in different directions. Contemporary managers are responsible directly for the company's performance, of which they are constantly aware, and on the basis of which they are paid. They are responsible to the team members with whom they work, who rely on their contributions and high level of commitment, and to the employees who report to them and rely on their support. They have responsibilities to their families and to others who rely on their friendship or care, and they are responsible for looking after their own interests – for developing their careers and for building and sustaining their incomes.

Perhaps the most obvious tension in all this is between work and home, between the needs of the family and the demands of the job. Managers today work exceptionally long hours and are always on call. The job demands it, and the insecurity of the job demands it. In many ways, being a manager now carries all the costs of being self-employed, but with few of the benefits. This creates tensions for men, who report feelings of guilt, as their families don't get the time and attention they need. It is far more difficult for women with families, who are likely to be criticized for working or for not working, and who just have to compromise as best they can in an impossible situation. In the bimoral society women can compete with men for managerial advancement on a completely equal footing, but they are expected to give an equal commitment. If they choose to be mothers as well, that is their free choice, and they must take the consequences.

The work-home tensions can also be seen in teams, when one of the team members hits difficulties at home (a sick child, spouse or parent, for example) that impact on the working of the team. Team members are both colleagues and competitors. As colleagues they have traditional moral relationships, which make allowance for

through self-interest and cannot afford to make allowances if these impact upon performance. As Richard Sennett has noted, there is also a tension in contemporary management teamwork between the achievement of solid results and the need to manage impressions. When a project doesn't work out, the traditionally moral thing to do is to see it through and take the blame. The smart thing to do is to network avidly and move on fast, leaving others to pick up the pieces.<sup>6</sup>

As well as being employees and team workers, managers are also bosses. They have to manage teams and they have, crucially, to hire, promote and terminate, or not renew the contracts of, employees. In theory this is easier in a market culture, where there is no future commitment beyond the terms of the contract, but that easiness disappears when we take account of the power differentials and the reality of human relationships. Managers have to ask their reports for loyalty and commitment, even though they cannot offer it in return. They can give friendship and support, and create a trusting relationship. Indeed, if they are to get the most out of their employees, they must do this: it is what management is all about. But they must do it knowing that they may have to take hard, market-based decisions and to renege on the implicit moral contract; that they will not be able to give help and support if and when it is really needed.

At the top of the organization, these tensions are compounded by others, as senior managers have to take responsibility for other stakeholders as well as for shareholder performance, and to live out the curious role of the contemporary CEO. They must act as their predecessors acted, as stewards of the corporation, but in doing so their judgment is constrained. The market culture, which gives priority to shareholder returns, requires them to take very hard decisions, many of which go against traditional moral principles. Their pay is structured so that these decisions are handsomely rewarded, but that only heightens the tension. Make 1,000 people redundant, enhance performance and get paid a few million dollars extra for that performance, and they are castigated by the popular press as self-interested and, in traditional

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depend on them, and they are also castigated, this time by the financial institutions, as self-interested, and as failing in their traditionally moral commitment to shareholders. In a pure market culture, of course, self-interest is moral, not immoral, so the latter criticism is inherently unfair; but in a bimoral society it is what they get. Like football coaches, they also get the sack when performance falters, whether or not they are at fault.

### *The challenge of contemporary management*

Managing all these tensions presents numerous challenges, not all of which have yet been fully recognized. There is now widespread recognition of the need for the development of entrepreneurial and career self-management skills alongside the traditional functional and technical skills of management. Important as these are, however, they are not at the core of the new management challenge. The core of the challenge is to combine enterprise with humanity, to channel and direct the entrepreneurial energies that are now being released so as to serve both the needs of the company – which is a challenge in itself – and, beyond that, the needs of society at large.

Part of this is a challenge of leadership. The demands of business leadership have not changed. Leaders still need, in John Kotter's classic formulation,<sup>7</sup> to provide direction, including a vision for the company and a strategy for achieving it; to communicate that direction and align people behind it; and to motivate and inspire people to keep moving in that direction, despite all the barriers and distractions that get in their way. Whereas in the past leadership was needed only for change, however, it is now needed for stability as well. Provided that it was going in the right direction an old-fashioned bureaucracy needed little leadership; it was change that was the problem. In more flexible organizations, where entrepreneurial self-interest pushes people in their own directions and where moral tensions pull them in

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<sup>7</sup> John Kotter. *A Force for Change: How Leadership Differs from*

leadership challenge.

The nature of the organization also impacts on the kinds of leadership that are effective. Both bureaucratic and market cultures tend to favor strong individual leadership and those who reach the top of contemporary business tend to be highly competitive individuals. Once at the top they are held personally to account in a way that isolates them further from their colleagues, and pushes them towards autocratic styles of leadership. The effectiveness of flexible organizations, however, depends critically on the freedom and autonomy that they give their employees, and attempts at autocratic leadership are apt to be counter-productive. At the other end of the leadership spectrum, empowering styles of leadership can be tremendously effective for small organizations, and for the leadership of communities where the interests of those being empowered are of paramount importance. But a business is not just a community. It has objectives to meet, and these will not always correspond to the interests of its employees. Moreover, achieving consensus by mutual adjustment is too slow a mechanism to respond effectively to rapidly changing competitive environments in large, complex companies.

Contemporary business leaders have to find ways of combining genuine autonomy with control, and empowerment with clear direction. In practice, this means following the dictates of empowering or servant leadership, listening to people, understanding them and building on their own individual aims and objectives; treating them openly to build up trust and trustworthiness. But it does not mean following their wishes. Business leaders have in the end to call the shots, and to take responsibility for their calls.

Another part of the management challenge is explicitly moral, in the traditional sense. The conception of managers as morally neutral technicians may always have been something of a myth, but like most myths it had a basis in truth. As critical sociologists have repeatedly pointed out, there is a sense in which the disciplinary forces of bureaucratic business organizations disable people's moral faculties. Questions of moral values are either distorted and translated into purely

individuals to cope with as best they can in the private realm outside their management roles. Contemporary business organizations do not so much disable people's moral faculties as crowd them out. In amongst all their other responsibilities, managers are now held explicitly responsible for upholding traditional moral standards in the business, for what is usually called "business ethics". But the disciplinary forces are still present and in a society in which moral engagement is getting progressively more difficult, in a business culture in which self-interest is ardently promoted, and in jobs in which the immediate, instrumental demands are manifold and all absorbing, finding space for the traditionally moral is incredibly difficult.

In a central and critically important sense, however, morality is now what management is all about. In contemporary organizations, the technical problem-solving and pursuit of efficiency that dominate existing conceptions of managerial work are carried out primarily through IT-based market mechanisms. To be effective these mechanisms need the support of skilled technicians. They also need to be regulated. But the discretionary skills of technical managerial problem solving are fast becoming redundant. And with the technical side taken care of, the task of the manager becomes precisely that which was previously forbidden: the political and moral task of determining purposes and priorities, reconciling divergent interests, and nurturing interpersonal relationships. The economic advantages of flexible organizations come from giving people the freedom to act as entrepreneurial agents, but these advantages can only be realized and sustained if they are set in the context of a traditionally moral community based on mutual trust and respect, active moral awareness and concern, the recognition of diverse needs and interests, and the fair treatment of those needs and interests. In old-fashioned bureaucracies, traditional moral duties and obligations were built into the rulebook, but contemporary management is all about breaking the rules, and finding new ways of doing things. The moral dimension has to be managed directly, by managers, through the medium of personal relationships.

of trust, or more accurately of trustworthiness. Only if people trust each other will they share their knowledge and insights and so learn from each other, allowing the organization to capture the benefits of their individual enterprise. In a knowledge-based economy, the ability to learn is the ultimate source of sustainable competitive advantage and managing learning is a third key component of the contemporary management challenge. In bureaucracies, knowledge was stored in the structure and culture of the organization and passed easily from one generation to another. Un-learning was the problem. In more flexible organizations, knowledge is held by transient individuals and in temporary teams, and learning needs much more active management. Part of this can be done through distributed information systems. Because the knowledge that counts tends to be tacit know-how rather than codified information, however, both learning and unlearning also have to be managed directly, through the management of personal relationships. Fortunately, the skills required are much the same as those required to meet the challenges of leadership and moral management: listening, empathy, personal engagement, open and honest communications, and demonstrable trust and trustworthiness.

### *Governance and accountability*

I suggested earlier that the scandals at Enron, WorldCom and Parmalat had more to do with a bubble economy than with the new moral culture. The bimoral society does have implications, however, for how we regulate to prevent such scandals, and for corporate governance more generally. The attention paid to corporate governance in recent years has been extraordinary. Literally thousands of academic studies have been published, and publicly listed corporations have been bombarded by a never-ending stream of new codes and regulations. But the studies have revealed nothing that was not already obvious and there is little evidence that any of the new policy measures have been effective. Indeed a strong argument can be made to the effect that they have actually been counter-productive.

a time when the culture of hierarchy is in retreat and bureaucratic rules and regulations are fast losing their effectiveness, they are proliferating as never before. This is in fact a natural response to the changes we have been experiencing. When authorities begin to lose their power they try all the harder to exert it, and when bureaucracies lose their effectiveness they respond in the only way they can, by tightening and adding to their regulations. The controls that were once imposed by a hierarchical culture and a simple but powerful regulatory system now have to be sought through a myriad of much more detailed and specific regulations. At best, however, this profusion of regulatory demands just adds to the cost of doing business. Companies make sure that the forms are ticked and the letter of the regulations observed (or the fines paid, if that works out cheaper) and get on with their business. At worst it reproduces the very behaviors it is intended to curtail. By focusing attention on the presentation of the company it encourages instrumental impression management and reduces genuine moral engagement. Starting out from an assumption of corporate self-interest, it feeds that self-interest and destroys the trust between business and society.

In governance as in management, the key to managing the tensions of the bimoral society lies in building relationships of trust. In a high trust environment, a plurality of interests can be recognized and enterprise can be allowed to flourish. In a low trust environment each acts for himself and both the company and society end up the poorer. The question is how to create such an environment. One way not to do it, as any parent knows, is to start out from a position of mistrust. The moment that asking people to give an account becomes equivalent to censoring them for anything in that account we don't like, regardless of what or how much we do like, the basis of honest accounting is destroyed. Political theorists of the Third Way, recognizing the globalized and post-traditional nature of our society, have written of the need for dialogic or deliberative forms of democracy in which the public interest is served by a *modus vivendi* built on open dialogue, rather than by the imposition of authority. These remain a long way off in practice, if only because we have yet to develop a post-traditional moral consensus on which the dialogue could be based, but they surely

blunt the forces of enterprise by disciplinary forms of governance. But we do need to trust businesses to be open and honest about their interests and activities, and we do need them to engage in constructive dialogue around the relationship between those interests and the interests of society at large. The process of corporate governance, like the process of management itself, must build on the moral culture in which we live.

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**John Hendry** is the BRESE Chair of Business Administration at Brunel University in London, England, a Fellow of Girton College, University of Cambridge, and Adjunct Professor of International Business Ethics at the Mendoza College of Business, University of Notre Dame. A graduate of St Catharine's College, Cambridge and Imperial College, London, he has worked in both private and public sectors and has served on the faculties of London Business School, Cranfield School of Management and the Judge Institute of Management, where from 1990-1998 he was founder director of the Cambridge University MBA. His publications include nine books and about forty scholarly articles in the areas of strategic and change management, business ethics, and the history of science, technology and business. The arguments in this paper are expounded more fully in *Between Enterprise and Ethics: Business and Management in a Bimoral Society* (Oxford University Press, 2004).