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Ethics Problems and Problems with Ethics: Toward a Pro-Management Theory

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ABSTRACT. The move towards having more teaching of business ethics comes in part from a tendency to view managers negatively, drawing on anti-management theories that are presently popular in business schools. This can lead to a misdiagnosis of the causes of contemporary business problems. Teaching business ethics can, however, be ineffectual and counter-productive. Education in ethical philosophy can lead managers to be indecisive, sceptical or to rationalize poor conduct. The ethics of academics become salient and lapses in them undercut their claims to authority. The philosophical viewpoint that stresses free choice runs contrary to the social science mission to reveal the causes that determine human behaviour and provide solutions to problems. Pro-management theory offers a more positive appreciation of managers, with its three components of structural functionalism, strategic functionalism and stewardship.

KEY WORDS: anti-management theories, business ethics, ethical dilemmas, ethical philosophy, free choice, misdiagnosis, problems with ethics, pro-management theory, rationalizing unethical behaviour, stewardship, structural functionalism, unethical academics

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Introduction[1]

Recently there has been a move to increase ethics teaching in management education. This receives considerable apparent support from well-publicized cases of large corporations with major problems. Viewed from the ethics paradigm, these are cases of unethical behaviour that show the general lack of ethics in management and hence the need for more emphasis on ethics in the management curricula in order to prevent these problems in future. However, each component part of this argument is open to doubt.

This article will argue that key cases of corporate wrongdoing are not primarily failures of ethics. And viewing these wrongdoings as manifestations of pervasive, inherent defects in managers is dubious. Nevertheless, it is encouraged by the anti-management theories that are rampant in many management schools.

Ethics education in management schools is of doubtful efficacy in that there are grounds for holding that ethics education may not make managers more ethical. This article will argue that ethics education of managers and future managers in business schools, suffers from five problems that produce unanticipated negative consequences. These problems with ethics pertain to misdiagnosis of the causes of problems, lack of moral authority of academics, ethical philosophy, ethical dilemmas and free choice (free will). Table I lists these five issues and the problems that flow from them, providing a summary of the arguments about problems with ethics that will be presented here.

In particular, the ethics teaching paradigm holds to a view of human conduct that is inimical to social science. Yet social science research holds out the possibility of preventing future corporate wrongdoing, or of ameliorating its impacts. There is a need to

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correct the view of managers offered in management schools by developing a pro-management theory. The article closes by sketching three elements of such a pro-management theory: structural functionalism, strategic functionalism and stewardship theory.

The anti-management view in modern management schools

Management education expanded prodigiously during the 20th century so that schools, variously named as schools of management, administration or business, worldwide educate large numbers of undergraduate and postgraduate students and experienced managers, in bachelor, MBA and executive programmes. The mission of such schools is to serve managers and would-be-managers. However, many faculty members in such schools hold, and openly profess, anti-management views. The teaching curriculum and research seminars in management schools often contain derisory images and evaluations of managers.

These negative views are influenced by anti-management theories: institutional theory says that managers are superficial conformists (DiMaggio and Powell, 1991), organizational ecology says that managers prevent their organizations from adapting (Hannan and Freeman, 1989) and agency theory says that managers satisfy their own interests to the detriment of shareholders (Jensen and Meckling, 1976; see also Williamson, 1975) (for critical discussions see Donaldson, 1995; Ghoshal and Moran, 1996). These negative views of managers lead towards the view that managers are unethical and immoral. This is anomalous in professional schools supposedly dedicated to helping managers. In the future, historians who look back at late 20th century and early 21st century management schools are likely to be surprised by this anti-management stance.

There is a tendency for many management school faculty members to be strongly critical of managerial decisions and actions. Often the prescription offered is to improve the ethics of managers. From the viewpoint of a value-neutral social science, this kind of negative depiction of managers would be deserved if it were empirically valid and based on careful research. However, it is not always either valid or carefully based. Some of the anti-management bias comes *a priori* from theories that take as axiomatic that managers are prone to act in a bad way (e.g. agency theory). Some other part of the bias seems to be simply faculty members accepting popular negative stories about managers, which circulate in the community and are carried in the mass media.

Again, a negative view of managers might be scientifically valid if based on large, representative samples. Yet, often the critical view propounded by management school academics about managers is based on a handful of cases. These cases are then taken to prove generalizations about managers being inherently bad or predisposed to unethical conduct.

TABLE I

Elements of business ethics teaching and their unanticipated negative consequences

Teaching Business Ethics	Causes	Negative Consequences
1. Misdiagnosis of Causes of Problems		True Causes Neglected Problems Solution Failure
2. Salience of Moral Authority of Academics		Unethical Academics Lack Moral Authority to Teach Ethics Effectively
3. Ethical Philosophy		Inconclusiveness ("No right answer") Ethics Scepticism Rationalizing Unethical Behaviour
4. Ethical Dilemmas		Indecision
5. Free Choice		Freedom Delusion Social Science Incompatibility

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Extreme cases of misconduct that receive publicity are treated as being 'the tip of the iceberg', or as being a way to see into the true nature of managers. Again, at other times, the results of larger scale social science inquiries are taken as proving widespread managerial wrongdoing when that conclusion is reached only by a particular interpretation of the data. Such interpretation uses one or other of the anti-management theories, in that way creating an illusion that the anti-management theory is valid. In contrast, the empirical findings may better fit a theory that has a more positive view of managers. However, the anti-management discourse in modern management schools ignores such more pro-management theories. This violates the scientific ideal that a range of theories should be considered in interpreting data. Again, it leads to the overlooking of pro-management research, both theoretical and empirical.

Unanticipated negative consequences of teaching business ethics

Education in business ethics has five elements that can produce unanticipated negative consequences thereby rendering ethics education ineffectual or counter-productive: misdiagnosis of causes of problems, salience of moral authority of academics, ethical philosophy, ethical dilemmas and free choice.

Misdiagnosis of causes of problems

A contemporary way of reasoning is to go from a few cases, to over-generalizations of a negative kind about management, and thence to recommendations such as more ethics education in management schools. Each of these steps in the chain needs to be queried.

Many of the prominent cases of managerial wrongdoing are not primarily failures of ethics but are poor managerial business judgements that led to corporate financial collapse, prompting unethical acts or accompanied by unethical acts. This can be seen in the following three cases: Enron, Maxwell and HIH.

First, Enron is a problem case that figures prominently in many contemporary discussions of management. Criticisms are often made of poor ethics, such as Ken Lay of Enron exhorting employees not to sell their stocks while he was selling his. The lesson drawn is that there needs to be more ethics education in management schools. However, Enron is centrally a case of corporate collapse, brought about by diversifications beyond the core business and home market into other products and geographies (Fox, 2003). The situation of looming financial disaster and declining Enron stock prices caused Lay to want to sell his shares urgently, while seeking to keep up their price while he did so (Fox, 2003). In the Enron case there were also some ethical problems prior to the collapse that were not apparently caused by financial problems. In particular, the Enron electricity dealers manipulated electricity to California to cause shortages and price rises to create bonuses for themselves. Nevertheless, the main attribute of the Enron case is that it collapsed, causing social disruption and triggering the breaches of ethics that have focused public attention on business ethics (i.e. the stock sales by Lay). Financial collapse is the underlying cause of other prominent cases of companies whose senior managers have breached ethics.

Second, in the U.K., Robert Maxwell diversified his company, by buying Pergammon publishers for a large sum, through taking on debt. When interest rates rose markedly, his company was in dire financial straits, leading him to draw on the company employee pension fund, resulting in employees being unemployed and with reduced pension entitlements (Stiles and Taylor, 1993). Thus, impending bankruptcy impelled Maxwell to take an unethical action to try to avert the dissolution of the company. If he had been able to avoid the bankruptcy, this would have been not only in his interest but also those of all the stakeholders, including the employees. Thus, while tapping the pension fund turned out to be unethical, Maxwell's decision to do so may have been compatible with attempting to safeguard the interests of employees. Thus, an unethical decision may also be a risk taken in the desperate circumstances of impending financial collapse.

Third, in Australia, HIH, a large insurance company, went bankrupt and there were multiple types of unethical (and some illegal) behaviour that occasioned widespread public criticism. The CEO gave lavish presents and parties, maintaining his patronage, when the company was already in financial straits. Also, a non-executive director

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ensured that he was paid for some consulting just as the company was going bankrupt. A major cause of the bankruptcy of HIH was its diversification into the U.K. and U.S. insurance markets, where it lost disastrously. The Royal Commission into HIH (HIH Royal Commission, 2003) has concluded that the cause of its collapse lay in such errors of judgement by its managers about business risks, rather than more systematic wrongdoing.

Again, a side issue in the HIH affair was a non-executive director who influenced HIH to benefit his outside, private companies to the detriment of HIH. These outside companies were themselves in increasing distress and his undue influence on HIH was designed to shore them up. Yet again, we see that the root cause of unethical business decision is impending financial collapse.

In all these cases, the main problem for the shareholders, and for the community, has been that the companies collapsed financially. The Enron collapse was caused by diversifications that went wrong. Similarly, the two other cases, Maxwell and HIH, are also diversifications that went wrong, leading to corporate collapse. These are essentially cases of business judgements that turned out to be mistakes. Much of the unethical behaviour results from imminent collapse. These cases are not primarily cases of failures of ethics, though the business failure sometimes led to unethical behaviour, or unethical behaviour accompanied them. Improving the ethics of the managers would have been unlikely to have prevented the collapse and the major losses for the shareholders and community.

Hence, the solution to avoiding 'future Enrons' is for corporations not to make bad business decisions that send them bankrupt. While this is desirable, it is not clear how this could be implemented, short of preventing corporations from diversifying. Many corporations diversify without going bankrupt. Some element of risk-taking is integral to the free enterprise business system.

Perhaps the best that can be done is to seek to minimize the damage caused by corporate collapses, in the knowledge that inevitably some will occur in the future. In the Maxwell case, damage would have been limited if legislation had required that employee pension funds were kept separate from corporate assets, so that corporate managers had no access to them. Going further, employee pension funds should be prohibited from holding more than a small fraction of their assets in the company that employs the employees, so that the employees are diversified and thus protected from the company going bankrupt.

Hence, in terms of Table I, labelling cases such as Enron, Maxwell and HIH as primarily failures of business ethics, leads to *Misdiagnosis of Causes of Problems* and so to *True Causes Neglected*, and, thereby, forestalls formulation of effective solutions i.e. to *Problems Solution Failure*.

Prominent though such cases as Enron, Maxwell and HIH are, they represent only a tiny fraction of large corporations in their countries. Therefore, there is no basis to infer from them that the behaviour of their managers is typical of managers in general. Thus, in so far as the behaviour of their managers was unethical, it is no proof that managers in general are unethical.

Salience of moral authority of academics

Today, the academic management education community sits in judgement on managers in organizations, and judges them to be acting unethically or immorally. Therefore, it needs to be asked whether academic management educators themselves act morally. Academics are in a more authentic position to criticize managers for ethical or moral failings if those academic critics themselves act in highly ethical ways, however, this is not always the case. Since there is reason to doubt that academics possess moral authority, they lack a basis on which to criticize managers.

A more traditional stance (Friedman, 1953) would be to say that academics are value-neutral social scientists, who make no value-based judgements and claim no moral authority. But many academics have disavowed such claims to value neutrality, and the modern push for ethics teaching is clearly powered by value judgements. The statement is forcefully made that managers and academia must give more emphasis to ethics and morality. Hence, it would be self-contradictory for the academic proponents of business ethics not to claim a moral basis for their own position.

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To ask whether academicians are more ethical than the senior managers whose ethical lapses concern us (e.g. Ken Lay) may seem strange, because clearly, academics do not make off with huge multimillion dollar gains from stock options and the like. However, as we have argued, these high-profile cases may not be typical of managers in general, so that the real standard for comparison is the ethics of the average corporate manager and the average management academic. But even so, it may be felt that the average manager commits wrongdoings, such as cheating shareholders and customers, abusing employees and so on. It is true to say that the university academic does not cheat the shareholders, but then he or she has no shareholders to cheat. However, the academic has more opportunity to commit certain types of unethical behaviour. For example, academics have access to younger people dependent upon them and this provides opportunity for exploitation. Again, the academic is in a position to steal the ideas of doctoral students, plagiarize the work of other academics or falsify data. Thus it is not clear that academics are on average more ethical than managers, even though the types of unethical conduct may differ, reflecting the different situation, and hence opportunities, of managers and academics.

Academics are in a privileged position, in that they may receive tenure for life, which is designed to safeguard their integrity, so that they can publicly espouse the truth as they see it, without fear from their employer. Yet one listens to tenured academics who have breached those ethics. Academics freely admit, in seminars or in the office, to having made statements in their publications that they knew to be untrue 'to please the editor' or 'for the reviewers'. Falsehood is a major violation of ethics and the standards of science. It breaches the trust granted with tenure.

Again, the public image of a senior professor is of an individual in a prestigious and privileged position, who can fearlessly defend the truth as he or she sees it. But instead, one comes across senior professors seemingly prepared to agree to almost anything in a seminar or other discussion, in order to endear themselves to the audience. American colleagues have explained: ''Today, everyone has their vita out. They are on the market. Trying to get a job in a better place. Or an offer they can take back to their Dean to get more money''. Thus, lack of ethics seems to be, to a degree, institutionalized in modern management school academia.

In terms of Table I, teaching business ethics creates the *Salience of Moral Authority of Academics*, and this is undercut by any unethical behaviour of academics, so that *Unethical Academics Lack Moral Authority to Teach Ethics Effectively*.

Ethical philosophy

Recently, the teaching of business ethics has received renewed attention in university schools of business and management (e.g. Hartman, 2007; Melé, 2005; Trevino and Brown, 2004). However, the contribution of teaching ethics in university courses to better managerial behaviour is questionable.

Business ethics offers an intellectual appreciation of the moral issues involved in managerial decisions, informed by a deeper understanding of ethical or moral philosophy. For instance, students may be instructed about the differences between utilitarian and deontological ethical philosophies. In a Harvard Business School publication for students, Goodpaster (1983) lays out the ''Ethical Frameworks for Management'', including: ''Teleological frameworks... Utilitarianism...Deontological frameworks...Existentialism...Contractarianism...Kant's Ethics''. Yet, philosophy, generally, is often seen to offer an extended discourse leading to no firm conclusion.

Hartman (2007) acknowledges the lack of firm conclusions in ethical philosophy: ''Students who take courses in ethics discover that philosophers, who seem to think that they have some special knowledge to impart about ethics, have disagreed among themselves for at least a couple of millennia''. Thus the danger is, that applied to business and managerial ethics, *Ethical Philosophy* leads to *Inconclusiveness* (Table I) – as being seen to be a subject in which 'there are no right answers', and therefore also no wrong answers. Thus, education in ethical philosophy may produce equivocation rather than attachment to moral principles.

Indeed, philosophy is sometimes valued as teaching something like critical thinking, rather than for any more substantive lessons. Thus, more education in philosophy may lead to a profound, but highly critical view of ethics and so to scepticism about any ethics, that is, to *Ethics Scepticism* (Table I).

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Hence, education in ethical philosophy could lead to a cultivated scepticism about any moral principle.

Ethical philosophy can even be used to produce more articulate rationales for morally bad decisions, thereby *Rationalizing Unethical Behaviour* (Table I). Adolph Eichmann is infamous as having been a Nazi manager of the Holocaust. Ranasinghe (2002, p. 300) comments: "It came as a great surprise when Eichmann announced during his trial that he had led his life according to the precepts of Kant's moral philosophy and had, in fact, even read Kant's *Critique of Practical Reason*."

Thus, education in ethical or moral philosophy could be ineffectual, through fostering inaction and scepticism, or counter-productive, through facilitating rationalization of immoral conduct.

Ethical dilemmas

Education in business ethics is often couched in terms of teaching students to recognize and appreciate ethical or moral 'dilemmas': should one do A or B? Yet there are grounds for questioning whether intellectual reasoning will encourage more ethical managerial decisions. Identifying a decision as being 'an ethical dilemma' may lead to inaction. Intellectual reasoning can lead to decision paralysis, so that *Ethical Dilemmas* can cause *Indecision* (Table I).

Moreover, taking an intellectual approach to ethics, which is the hallmark of university courses, may be ineffectual in promoting ethical behaviour. Haidt (2001) shows that psychological research finds moral judgements to be caused by intuition rather than by moral reasoning. Moral codes have largely been already set for individuals long before they enter university. While business ethics may be distinguished from the ethics and moral values of individuals, there are common underlying principles (Trevino and Brown, 2004), so that business ethics is the application of the ethics and moral values (e.g. honesty) of the individuals in business.

Sociologists would argue that an individual is more likely to act morally if he or she has been brought up from birth in a community that shares these moral norms and values. Thus, the norms and values are constantly reinforced, and the individual internalizes them so that they seem natural to the individual. Indeed, the moral actions are taken-for-granted, so that non-moral or immoral actions are not even considered by the individual. This is, surely, the opposite of the 'examined life' that philosophers from the ancient Greeks onwards have vaunted. The stress in ethics education on ethical dilemmas is bringing to mind all the options, including immoral ones.

Also, sociologists would argue that moral values are set as part of the primary socialization of children in family, school and church etc. People are less amenable to change in their 20s and 30s, that is, the years of university education. Re-socialization of individuals during the adult years is very difficult to accomplish. Sociologists would argue that it requires the individual to be isolated into a total institution (Goffman, 1961), where their behaviour is regulated all the time to be consistent with one moral code. Military academies attempt such adult re-socialization, but universities, including management schools, typically do not, and would see such practices as contradicting their liberal ethos.

Free choice

Another reason for caution about ethics education is that university schools of business and management offer knowledge based on social science research, which tends to run counter to the business ethics movement.

Ethics is in tension with social science in their views of human conduct. As a result, the argument for teaching management students ethics, or for increasing the emphasis upon ethics in the business school curriculum, conflicts with social science. In particular, ethics holds that the individual makes free choices, whereas social science views the individual as determined by causes.

Moral codes typically work on the following model of the person. Every person is free to choose between right and wrong acts and so is held responsible. Thus, they may adopt the right course out of conviction, or they can be exhorted to choose the right act over the wrong act. And they can be praised for choosing the right act and punished for choosing the wrong act. Legal systems, certainly in the West, work on this presumption. So too do many religious systems. More informal structures of community-based morality often share this

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presumption. Crucially, the individual is seen as free to choose. In some systems this is the doctrine that individuals have free will.

Social science differs markedly in its view of the person. Social science seeks explanation in terms of causes and effects. Thus, the more successful is social science, the more fully it reveals the true causes of an individual's behaviour. These causes determine the behaviour of the individual. Given a particular level on the causal variable, the individual is bound to act in the way the cause specifies. Hence, social science is determinist. The *Free Choice*, or free will, posited by many ethical systems is seen as invalid and illusory by social science, and as constituting a *Freedom Delusion* (Table I). The ethics view of human beings is inconsistent with the view contained in social science, so that the ethics view suffers from *Social Science Incompatibility* (Table I).

The social science view removes the responsibility of their actions from the individual to the causes, which may be outside the individual, in the situation, e.g. poverty or government policy. Unsurprisingly, traditional religious authorities have criticized social science for excusing, and thereby implicitly encouraging, wrong behaviour. However, organizational research leads to the view that managerial action is determined by the organizational situation.

In management, determinism can arise because of the differing consequences of the different options in a decision. If one option produces an outcome that the manager must have, then the manager is forced to choose it. For example, the manager may be required to maximize the profit of his or her organization and so must choose the option that gives the highest organizational profit. Therefore, the manager's choice is severely constrained, in that the other options would give less profit and so fail to meet the requirement.

The manager might evaluate the options in accordance with his or her values or personal preferences, which would increase the sense in which he or she is responsible for choosing it. However, the situation might force the manager to apply a particular value, even if it was contrary to his or her values or morality. For instance, a head office might enforce compliance with certain evaluative criteria, e.g., maximizing profit, by using sanctions, such as dismissal, for those managers failing to conform. The manager is still able to choose displeasing the head office, but this might involve sacrifice of family living standard or the education of children. Due to such external pressure, the manager might well have diminished freedom of choice and responsibility.

In some organizations, both these situational constraints on a manager may be present simultaneously, in that only one option produces high organizational performance and the manager is under pressure to have his or her organization perform highly. Therefore, the manager is constrained regarding the choice of both means and ends.

For example, looking at managerial decisions about organizational structures, the structure that produces the highest organizational performance depends on the fit of the structure to the contingency factors (e.g. environment and strategy). Research shows that only certain structures fit the strategy, environment and other contingencies, and that fit produces higher financial performance than misfit (for a review see Donaldson, 2001). Therefore, the contingency factors become determinants that constrain managerial choices, because a manager must choose the structure that fits the contingencies of his or her organization, or suffer unacceptably low performance.

For example, in contingency theory, an organization has a certain level of the contingency variable of environmental and technological change, so only one structure fits that and produces high performance (Burns and Stalker, 1961). Thus, environment determines structure. Similar pressures arise from intra-organizational contingencies, for example, "strategy leads to structure" (Chandler, 1962; Donaldson, 1987), because the level of diversification determines whether the fitting structure is functionalized or divisionalized. Thus, diversification also determines structure. As long as a manager is required to produce high organizational performance, he or she is forced by the environment, diversification and other contingencies to adopt the fitting structure. While the manager is making a choice and deciding, his or her responsibility is diminished very considerably, so that he or she may say, colloquially, 'I didn't really have a choice'.

For many managers today, there are strong, and probably increasing, pressures on their organizations and themselves for their organization to perform at a

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high level, such as in financial performance e.g. profit and stock price. The stock price of companies is now more widely analysed, and the rise of institutional investors has increased the power of shareholders in large corporations. Business schools are subject to ratings e.g. the *Financial Times*' ranking of MBA programmes. Therefore, managers may be under increasing pressure to adopt structures and other organizational features that lead to higher performance for their organization.

The manager being driven by external causes means that he or she will act that way regardless of whether the manager is made more consciously aware of the unethical or immoral nature of their action. Therefore, attempts to influence managerial ethics may fail. Better educating managers and management students in ethics and morality will have little or no effect, if the situational pressures on them in organizations are causing them to act in certain ways.

Thus, ethics and social science contain two different accounts of human action, which tend to oppose and contradict each other. Indeed, much of the impetus for the creation of social science comes from dissatisfaction with traditional approaches of ethics, morality and religion, because of their failure to solve social problems. Modern management school faculty members who are well versed in the social science approach cannot easily adopt the ethics approach, without the risk of being disingenuous or of falling into inconsistency. Management schools from about the 1960s onwards have been predicated upon their curricula being based on social scientific research. There would seem to be no good reason to abandon this in pursuit of the pre-scientific approach of ethical philosophy.

Pro-management Theory

Pro-management theory says managers are constructive and benign, acting capably and in the interests of their organization. Such a pro-management theory may hopefully provide a valid picture of most managers and of management in general. More modestly, a pro-management theory may helpfully serve as a corrective to the anti-management theories, so that management theory overall may become more balanced and valid. Ghoshal (2005) and Ghoshal and Moran (1996) have earlier advocated the creation of a theory of management that propounds a positive view of managers, and the present remarks seek to help to move in that direction.

Pro-management theory, as being advocated here, may be termed functionalist. It has three components:

1. *Structural functionalism*, meaning that organizational structures tend to be benign.
2. *Strategic functionalism*, meaning that corporate strategies tend to be benign.
3. *Stewardship*, meaning that organizational managers tend to be benign in their actions. Each of these components will be briefly presented here.

The case is sometimes argued that managers contribute positively by exercising free choice, but the argument here is that the choices managers make, though the result of determinants, are choices that produce benign outcomes, so the managers positively contribute to their organizations. This kind of pro-management theory provides a perspective from within social science that avoids the anti-management character of other social science theories of organizations (DiMaggio and Powell, 1991; Hannan and Freeman, 1989; Jensen and Meckling, 1976; Williamson, 1975).

Structural Functionalism

Structural functionalism is a general theory in sociology (Merton, 1949); applied to organizations, it holds that the structures adopted by organizations tend to be those that are functional, that is, enable the organization to be effective. There has been criticism of functionalism (e.g., Elster, 1984), but it remains a valid type of theory about society and organizations (Donaldson, 1985; Hartman, 1988; Kincaid, 1996). In particular, the functionalism being used herein includes a role for intentions by the human actors (e.g. managers), in that they create and adapt their organization in order to attain higher performance.

Structural contingency theory is a sub-type of structural functionalism that states that the most

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effective structure is that which fits the contingency. Chandler (1962) argued that large U.S. corporations, after they diversified, tended to adopt the multidivisional structure. Subsequent studies have confirmed that diversification leads to divisionalization among large corporations, not only in the U.S. (Rumelt, 1974), but also in Australia, France, Germany, Italy, Japan, New Zealand and the UK (Chenhall, 1979; Dyas and Thanheiser, 1976; Pavan, 1976; Suzuki, 1980; Hamilton and Shergill, 1992; Channon, 1973, respectively). Diversification leads to divisionalization both in manufacturing and in the service industry (Channon, 1978). The contingency theory explanation is that functional structure fits the contingency of low diversification while a divisional structure fits the contingency of high diversification. There is evidence that these fits lead to higher performance in studies of large corporations in the U.S. (Donaldson, 1987) and in New Zealand (Hamilton and Shergill, 1992). Thus, by adopting the divisional structure after diversifying, corporations are being effective and adaptive, supporting structural functionalism and thereby the pro-management theory.

In contrast, institutional theory is a cynical, anti-management theory, which gives a negative view of managers and organizations (see Donaldson, 1995). Applied to divisionalization (DiMaggio and Powell, 1991), it argues that organizational managers adopted the divisional form in conformity to fashion, not rationally, especially in the 1960s. However, an analysis shows that divisionalization, including in the 1960s, was overwhelmingly a move into the fit with strategy that leads to higher performance and therefore was adaptive (Donaldson, 1987). Hence divisionalization is not validly explained by institutional theory; it supports, not this anti-management theory, but pro-management theory.

Critics of management routinely invoke the criticism that managers build empires by hiring unnecessary subordinates, especially subordinate managers and administrative staff. Thus, the ratio of the managers and administrators to the front-line workers who make the product or deal with the customers, is said to rise, some say geometrically (Roy, 1990, p. 28), as the organization grows. The ratio of managers and administrators to total employees has been termed administrative intensity. Research by Blau and Schoenherr (1971) reveals that administrative intensity *decreases* with organizational size, so that there are economies of scale in administration. The reason is because of benign tendencies in organizations, which functionalism identifies (Blau and Schoenherr, 1971). These benign tendencies are presided over by managers and attest to the absence of empire building by managers. The resulting lower administrative intensity of larger organizations has been shown in organizations of many types and in various countries, providing evidence that managers are generally benign (e.g., Goldman, 1973; for a review see Donaldson, 1996).

Strategic Functionalism

Chandler (1962, 1977) had a benign view of the strategy of the large U.S. corporations that he studied, seeing, first, the vertical integration of smaller firms to produce the large, single business company and then the creation of the multi-business, multidivisional corporation. These changes he analysed as a constructive growth achievement that was associated with faster, cheaper goods (through increased speed and economies of scale and scope), more product innovation and the provision of more differentiated goods to heterogenous markets. Many of these developments were accomplished through, or while, diversifying. Diversification of large corporations, so that they made a very wide range of goods and services, used to be seen as a major achievement of managers – often attributed to professional managers, e.g. those who were educated and experienced as managers but were not the owners of the corporation they managed.

In contrast today, diversification is often seen as the result of foolish or pernicious actions by managers, or as the proof that they are wayward. Agency theory argues that managers diversify, to empire build or to reduce their risk, against the interests of their shareholders (Amihud and Lev, 1981). Some studies showing lower performance from more diversified companies are considered conclusive proof of the negative nature of diversification (Rumelt, 1974), however the results of studies into diversification and performance are mixed (Ramanjum and Varadarajan, 1989).

A firm in a profitable, growing industry has plenty of opportunity to re-invest profitably in that

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industry, and so has no need to diversify. However, a firm in a less profitable industry, such as a stagnant or fiercely competitive industry, lacks that opportunity, so that diversifying into another industry may give the firm better profit than if it just reinvested in its traditional industry (Weston and Masinghka, 1971). Thus, the issue is whether the profitability of the businesses into which the corporation has diversified is better than that of the traditional business.

Again, the preferred strategy by agency theory is to return money to shareholders through dividends. However, the investor loses value through income tax in many jurisdictions of the world. Moreover, the investor then has to find a new way to invest his or her money, which may not be easy or costless. The CEO of a diversified firm is, in a way, a fund manager for the investor. By leaving the investment inside the firm the CEO can re-invest the full amount for the investor.

Through diversification, a corporation may enter a new, promising industry, such as financial services. At the extreme, the corporation may eventually divest its old core businesses and exit their industry e.g. American Can. This phenomenon is testament to the flexibility and innovatory spirit of managers in re-shaping their set of businesses. It belies the organizational ecology view (Hannan and Freeman, 1989) that organizations are governed by inertia, because of the deficiencies of their managers e.g. being dominated by vested interests.

Stewardship

Stewardship means that managers act pro-organizationally. It is the opposite view to the agency theory view of the manager as a cheating and untrustworthy 'agent' who fulfils his or her self-interest to the detriment of the organization and its shareholders. Stewardship theory holds that managers are motivated to act pro-organizationally in ways that serve the interests of stakeholders, including shareholders (Donaldson, 1990; Davis et al., 1997). Two motivations can be distinguished. The first are reward type motivations whereby the manager receives satisfaction by acting pro-organizationally. This involves fulfiling psychological needs such as those for achievement and responsibility. It includes also satisfaction gained from performing interesting, challenging work well. The second type of motivation is non-utilitarian in that the manager receives no reward, psychic or otherwise, for acting this way. It involves acting out of a sense of duty or obligation. These motivations tend to be maximized where the manager is responsible for managing the affairs of his organization (or sub-unit) rather than being subject to close supervision or interference. Thus, motivation is maximized by empowerment of managers to use their professional skills and values to act autonomously.

Agency theory advocates placing close controls over managers, for instance, through a strong board of directors composed mainly of outsiders (Jensen and Meckling, 1976), who are independent of management, and so can monitor and sanction management. However, if the manager, such as CEO, is a steward, these controls are unnecessary, so are an unneeded cost to the company, but, worse, these controls are counter-productive. The controls reduce the autonomy, responsibility and feelings of achievement of the manager and thereby reduce his or her motivation, leading to frustration and lower performance by him or her. Thus, stewardship provides a positive view of the motivations of individual managers that is part of the pro-management theory.

Agency theory holds that substantial financial incentives for managers are required to re-align their interests with those of the outside shareholders (Jensen and Meckling, 1976). Stewardship theory holds that the job itself, if properly structured, is motivating enough, because managers' interests are inherently aligned with the outside shareholders. Hence there is no conflict of interest that needs to be overcome by mechanisms such as financial incentives. Nevertheless, agency theory has relentlessly advocated greater financial incentives and pay-for-performance rather than just salary (Baker et al., 1988). And the agency theory phrase about 'incentive alignment' has passed into use in the community. In this climate, stock options and other forms of financial incentives of upper management have increased considerably. These incentive payments to managers have grown so large that they are now subject to widespread social criticism as being extravagant, excessive and undeserved. They are also seen as being inequi-

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table relative to other employees and so undermining cooperation in the firm.

Outside commentators are now prone to point to excessive executive pay as the first and foremost managerial misbehaviour. These large sums are seen as proof that managers pursue their own self-interest to the detriment of other stakeholders, including shareholders. Thus, financial incentives that agency theory says are the solution to reduce agency costs are now seen as themselves being agency costs! This is an inner contradiction within the agency theory movement.

Thus, agency theory, by its language and prescriptions, has to a degree created the problem of managers being wayward agents. Psychological research shows that giving individuals extrinsic rewards such as pay, focuses their attention extrinsically and leads to a diminution of the motivation from intrinsic rewards e.g. task enjoyment (Deci, 1975, pp. 129–159). Hence, financial incentives can make a manager become more like an agent and less like a steward. Stewardship theory advocates paying managers a salary. While it should be larger than lower level employees, reflecting differences in responsibility and scarce abilities, it should be a reasonable ratio of bottom level employee pay, to maintain equity, cooperation and competitiveness.

Economics has produced a theory and body of empirical work that gives a positive view of private property holders trading through free markets. This is used to justify property rights and markets, and to argue against intervention by governments. It would clearly be consistent with the mission of management schools for them to propound an equivalent positive theory of management. This would explain how managers make sound decisions that benefit their organization and the community. It would show that these outcomes are better where managers make these decisions unfettered by powerful superordinate bodies, such as the boards of directors, shareholders or governments. It would show also that sound decisions can be taken by managers who are not owners, and that the replacement of owner–managers (such as founding entrepreneurs or members of the founding family) by non-owning managers can improve an organization. Moreover, it would demonstrate the superiority of managers who have been formally educated and trained in management. Going further, it would help to define a profession of managers, giving emphasis to qualifications and giving due salary and social status.

Such a pro-manager subject in the curriculum would serve as a counter-balance to the anti-management subjects that loom large in the present-day curriculum. However, it would not in and of itself be the whole truth, and that would be provided by balancing it with the anti-management subjects in the curriculum e.g. economics.

Conclusions

Cases of unethical behaviour by corporate managers have led to a widespread view of managers as being unethical and as requiring more ethics education to forestall these tendencies. However, some of the prominent cases of problematic corporate behaviour are not primarily failures of ethics, so that interventions aimed at improving ethics may be ineffectual. Furthermore, much of the inherent propensity to wrongdoing that is attributed to managers-in-general is an invalid extrapolation from cases of extreme behaviour. The attribution often relies on theories that take a negative view of managers and are of doubtful validity.

Ethics education in business management schools suffers from difficulties. Instruction in ethical philosophy may not make managers behave more ethically, because philosophical education can lead to uncertainty, indecision or even rationalization of unethical behaviour.

Ethics pre-dates social science as a way of analysing human conduct and is associated with free will and other concepts that are inimical to modern social science. Social science research aims to uncover the determining causes of managerial behaviour so that policy-makers may address these causes and may influence outcomes.

Management schools need to construct and propound a more realistic theory of management, that is to say, a pro-management theory that brings out the benign nature of much management. The present article has sought to make modest steps in that direction by briefly sketching three elements of such a pro-management theory: structural functionalism, strategic functionalism and stewardship theory.

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Note

[1] A version of this paper was originally presented at the IESE Business School, University of Navarra, for the 14th International Symposium on Ethics, Business and Society: ''Towards a Comprehensive Integration of Ethics Into Management: Problems and Prospects''. May 18–19, 2006.

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