

**Good governance: A role for organizational politics and organizational democracy in creating moral communities**

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Accusations of irresponsible trading have been leveled at the financial services sector in the aftermath of the global economic downturn of the last three years. In turn, this has led to calls for even greater regulation and public scrutiny of board decisions. Yet why should these be necessary? After all, the corporate world was changed by the comprehensive overhaul of governance practices that followed the scandals of Enron, WorldCom and others, now a decade ago.

The answer is a stark indication of the limits to hierarchical control that exist in today's organizations. It is clear from the autopsies of sub-prime lending casualties like Lehman Brothers, Fannie Mae, and Freddie Mac that boards cannot simply require that good governance is practiced within their organizations. Yet this should not be of surprise. For failure to take account of differing stakeholder interests is unlikely to be effective in encouraging responsible corporate behavior.

Over many years the organizational democracy movement has sought to illuminate this issue. Its essential proposition is that greater levels of employee representation in organizational decision-making create more responsible and engaged behavior. However, this line of reasoning has enjoyed mixed results at best. Broadly speaking, businesses remain unconvinced that the principles of democratic governance can be transferred to the workplace (General Motors' Saturn experiment in shared decision-making being a notable case in point). We agree. Much of the research has been narrowly focused, concentrating on the effects of distributed ownership.

Understandably, senior executives looking for practical solutions to the employee engagement problem struggle to see the relevance of these arguments. In the words of many a frustrated manager: "We are not running a democracy here." Thus, rather than try to graft the structures of democracy on to organizations, we have concluded that greater progress towards building responsible moral communities must be made another way.

In 2002, we published an article in *Organizational Dynamics* arguing that prescriptions for greater democratization have had limited impact on business for one reason in particular. They fail to acknowledge the positive contribution of a core value premise of democratic politics: the reconciliation of competing stakeholder demands. The article attracted healthy debate, leading us to undertake further research. In this current edition of *Organizational Dynamics* we describe the advances made. Our intention is to offer compelling reasons and practical ideas as to how democratic politics may be harnessed in pursuit of ethical decision-making, employee engagement and so good governance.

## **ORGANIZATIONAL POLITICS: THE CORNERSTONE OF ORGANIZATIONAL DEMOCRACY?**

Consider Kate Wilson, U.K. group managing director in an international publishing corporation. Reporting to her corporate center in New York, Kate managed four interrelated product divisions of highly vocal and well-educated staff, organized across multiple sites. Some products were developed and marketed through strategic alliances with other businesses, others through direct sales. The consequence? Divisions and individual sites had differing strategic agendas, leading to conflicting demands on shared resources, particularly marketing and information technology (IT). Furthermore, some divisional strategies attracted partisan support from corporate center executives.

These tensions required Kate to deal frequently with the reconciliation of competing interests, most of which had validity in her eyes. As with institutional politics, her underlying purpose was to mobilize support so that solutions she considered most appropriate could be realized.

Kate's organizational circumstances are familiar to executives everywhere. And it is just such commonplace tensions that prompted us to write the original article. We suggested that the traditions of institutional politics offer insight to business leaders struggling to create strategic coherence in the face of diverse stakeholder interests. Leadership in both organizations and democratic institutions, we argued, is characterized by similar tensions. First, there is the need to balance the drive for cohesion and the productive exploitation of differences. Second, it is necessary to reconcile personal interests with the interests of others. But we also noted a key difference. In most organizations, political methods, whilst considered "realistic," are problematic. They appear to contradict the core principles of organizational coherence and economic efficiency. These principles we referred to as the *rational mindset*. From this viewpoint, organizations are places of unity where employees work with consistent strategies towards clear corporate goals. These are articulated for them through top management, whose vision and value statements reflect prescriptions about desired behaviors.

To be clear, we did not seek to refute the value of rational efficiency as an organizing principle. Rather, we wanted to draw attention to the potential of the rational mindset to suppress the legitimacy of alternative viewpoints and the political means through which these are presented. We argued, as others had done before us, that as businesses become more complex, the role of informal power derived from relationships and networks increases in importance. Leadership has thus become ever more the process of representing the interests of a range of stakeholders, only some of whom are at executive level.

We therefore concluded that the requirement to coalesce and distribute this informal power is similar for leaders in organizations and democratic institutions alike. It can only be achieved on the assumption that the leadership of organizations is intrinsically both a rational and political process. Political behavior, far from being dysfunctional, has consequently become central to the achievement of all managerial goals.

## **DEVELOPING THE IDEA OF DEMOCRATIC POLITICS**

Our original article led to many questions as to how principles of democratic politics and political leadership could take hold in practice. Two considerations in particular have been the focus of research for us since that time. First, given the dominance of the rational mindset, what motivates individual managers to behave as politicians? After all, political behavior is rarely portrayed as an organizational virtue, a point well illustrated by popular web sites like *politicalsavvy.com* and *howstuffworks.com*. Their focus lies in advising the unwary how to “survive” organizational politics. So why should managers regard politics as a constructive solution to the shortfalls of formal organizing principles?

Second, how does organizational leadership that takes deliberate account of political process translate in practice into greater democratic working? There are no readily available templates to work from. The U.S. Workplace Democracy Association, for example, formally defines democracy in terms of sharing information, rewards and discretion. Whilst this captures the central concerns of the workplace democracy movement, it also illustrates the gap to be bridged. The realities of institutional democracy are evidently not the primary reference point.

However, as our research has unfolded, we have been drawn to a third question: how might the political mindset strengthen responsible governance? In other words, how could democratic leadership processes improve on imposed regulation from board level in encouraging the development of responsible moral communities?

It is the third question that prompts the present article, but answers to the first two that have enabled us to build some coherence into a speculative solution.

## **THE MOTIVATIONS FOR POLITICAL LEADERSHIP**

To address our first question, we explored how senior managers deal in practice with diversity of organizational opinion. Our research has focused on how this is achieved in organizations of varied size and core task, but that are explicitly represented as unified through formal internal and external communication. For example, in one study we interviewed a cross-section of senior executives from five international corporations, each in a different industry. The everyday solutions to routine problems posed by differing managerial opinion confirmed our theorizing. In commonplace activities such as information usage or relationship building, the behavior of executives working with a rational mindset differed sharply from those reflecting a political orientation (see Box Out 1). Notably, political leaders appeared to arrive at their own similar practical conclusions irrespective of organizational circumstance.

Box Out 1. Leadership Behaviors.

From “Rational” Leadership	To “Political” Leadership
Preference for formal meetings and processes	Extensive use of informal processes, e.g., covert activity, corridor meetings
Focus on senior management approval/buy-in	Focus on working with personal agendas
Relationship building focused at senior levels	Relationship building and networking at all levels
Debating and challenging amongst a small senior coterie	Encouraging debate and challenge at all levels
Carefully prescribed delegation and empowerment	Providing others with space and autonomy to experiment, stimulating bottom up change
Tendency to influence through operational control	Influencing by focusing on broad direction
Working on formally agreed priorities/issues	Working outside of agreed responsibilities on unofficial initiatives
Challenging through established processes	Irreverent toward the status quo
Representing legitimate organizational interests e.g., own department, customers	Representing the interests of quasi legitimate constituencies

**Balanced Motives**

These executives explained their motivations in terms of several common factors. Each viewed diversity of interest as a critical organizing principle. As a particular individual remarked, “This organization works through politics. It is how we deal with different departments, with people as individuals and how they operate.” There was also had a tendency to encourage irreverence towards hierarchical control. Senior managers sought to make an organizational contribution through their personal interpretation of corporate goals. And third, in order to counter accusations of self-interest, each gave importance to building legitimacy of action through transparency of motive. One viewed it like this: “People have to see you as you are, and that you are trying to do something for the right reasons.”

Central to the political leadership approach was the value executives attached to the mutuality of stakeholder goals. Their concern was to further the interests of others rather than merely take others’ views into account. Several researchers in the corporate governance field have noted that this orientation is a prerequisite for the foundation of moral communities. Our own research supports this. We have found examples where such political leaders create groups reflecting high degrees of participation and a balanced tension between personalized local goals and corporate objectives. The key feature in each case is an assumed responsibility for core organizational values and objectives at local level.

## **A Democratic Asset**

We have concluded that the motivations driving political leadership support the argument that local political agendas can be viewed as a “democratic asset.” This refers to the capacity of employees to influence the way they are governed. The study described above, for example, revealed how political leaders encouraged voluntary processes of group formation and identity without creating untenable chaos. We have been able to replicate this finding in other studies, encountering leaders working to establish what they value as responsible best practice. Examples include local deviations from official corporate policy on customer relationships, health and safety and even financial probity.

Alastair Duthie, a newly appointed sales and marketing manager in Mitsubishi Electric is just such a leader. He quickly realized it would be necessary to circumvent corporate market strategy if he was to deliver his numbers. Duthie knew that managing his team's corporate interfaces would be critical to the implementation of his radical marketing and sales plan. He focused his time on talking to other influential functions and networking with key business managers. And as solid evidence for the effectiveness of his strategy modifications mounted, he publicized his team's success. Within a year he had exceeded his targets.

The Mitsubishi example demonstrates how corporate alignment is maintained through local efforts to balance group and organizational agendas. It suggests that groups can provide the levels of self-control necessary for corporate assurances of good governance. But that should be seen as a minimum condition. Through expressing voice about values that are important to them, these groups represent a basis for good governance from within an organization. In Semco, a company often cited for its pioneering efforts to create workplace democracy, this requirement for bottom-up debate is central to its business model. It is considered an advantage. Attendance at all company meetings is voluntary, and two of the company's eight board seats are held open to any employee. There is no mission statement, no HR (human resource) department. Nobody has a job description. As founder Ricardo Semler himself insists, “Our employees are obliged to think about what they're doing.”

## **POLITICAL LEADERSHIP AND DEMOCRACY IN PRACTICE**

Our second broad question concerned how political leadership in organizations translates in practice into democratic working. We sought to address this through several co-related questions. How does organizational democracy enable individuals to choose and act upon local agendas; do they genuinely believe their interests are furthered by political leadership; and to what extent do those working with a political mindset make moral choices? Our relationship with Mark Briffa, the then chief operating officer (COO) of Air Partner plc, provided a rich example of the case study approach we used to explore these questions in depth.

Competing with significant U.S. businesses such as NetJets and Sentient Jets in the aviation broking industry, Air Partner had achieved continuous product and geographic expansion over several decades. With extensive global operations led by educated entrepreneurs, it represented a business

environment where internal competing interests were endemic. In 2007, Briffa invited one of the authors to design an upward performance feedback process for the directors. The data collected indicated that Briffa employed many of the political leadership behaviors identified above. Moreover, he pursued this approach because he believed it to be a requirement for improved business performance within the context of Air Partner's fiercely competitive environment. His subsequent agreement to provide access to the business over an entire year enabled us to gain a detailed insight into the impact of constructive political leadership on workplace democracy (see Box Out 2).

#### Box Out 2. Experiencing Political Leadership.

Faced with a structure and working practices creaking under the weight of business expansion and advancing competition, Air Partner underwent a dramatic period of change. Led by Mark Briffa, the company moved from being strongly hierarchical and financially focused, to becoming an organization where managers were given autonomy, encouraged to network externally, and to develop their own ideas to move the business forward. Briffa was noted for his openness, willingness to debate issues, and the value he placed on differences of opinion. His belief in the importance of personal growth and opportunity led him to confront the hierarchical culture that had been encouraged by the corporate center. His leadership was seen to encourage greater levels of trust, upward challenge and feedback, such that managers became more critically reflective about the business and themselves. For example, as a result of Briffa's open style, one senior manager felt empowered to shape his own agenda for company ethics, challenging the use of European Union black listed suppliers even though there was no legal requirement to do so.

#### **Political Architecture**

Briffa was seen as the architect of considerable organizational change, much of this encouraged through role modeling democratic political principles. His leadership resulted in senior people treating the divisional structure both as a mechanism for organizational alignment and as a vehicle for furthering their own particular agendas for the business. This combination of rational mindset framing and officially encouraged political activity had a significant consequence. It created a high level of trust both within and across divisions.

From a governance perspective, Briffa might be described as an “ethically assertive” manager. By valuing multi-stakeholder interests, he was inevitably forced to work through the everyday moral choices created by conflicting demands. In turn, this engendered the same deliberation among managers across the business. For example, Briffa was concerned to thread a path between the commercial drivers of success and his desire to treat customers fairly. Colleagues consistently saw him to be “encouraging debate and challenge.” It was an approach that provided fertile ground for direct confrontation of ethical issues. Hierarchical boundaries became blurred at such times. This was

demonstrated, for example, in the confidence with which junior employees provided him with critical upward feedback.

### **Emergent Democratic Practice**

Briffa's role modeling of democratic political activity served to mediate between the need for organizational controls and the personal desire of his managers for autonomy. Whilst economic power was certainly retained in the hands of the board, through Briffa's personal leadership we were able to detect the emergence of greater democratic practice. Critically, his governance agenda for the business was enabled through his political leadership orientation.

Clearly, we cannot reach substantive generalizations from the Air Partner study. But the case serves to illuminate the conclusion we have drawn from our work of the past eight years. Democratic politics in organizations, whilst perhaps no more accepted as a formal organizing principle than when we last wrote in this journal, is nonetheless adopted for both practical and moral reasons in many organizational settings. The case also offers some indication of how the potentially virtuous relationship between democratic politics, the promotion of ethical behavior and good governance might work in practice.

### **ORGANIZATIONAL DEMOCRACY AND GOOD GOVERNANCE: DEEP WATER CHALLENGE?**

And so to our third question. What have we learnt about the potential for political leadership to further good organizational governance?

Tony Hayward, CEO of BP at the time of the Gulf of Mexico oil spill, is on record for saying it was “an entirely fair criticism” that his company had not been fully prepared for a deep-water oil leak. Yet like any player in the energy sector, BP is highly attuned to its environmental protection responsibilities. It is therefore plain that such a disaster could never have been prevented by more exacting CSR (corporate social responsibility) statements about safety principles. If standards were compromised by management decisions, almost certainly it was professionals working at the sharp engineering end of the business who were best placed to see the dangers. The governance questions that should therefore be of most interest concern those professionals directly. Did they operate within a safety culture that they owned and believed in? Were they able to challenge any lack of rigor in BP's deep water fail-safe measures? Or would such a challenge have only got them into deep water?

Our findings lead to an obvious conclusion. Challenge of this kind is much more likely in an embedded culture that empowers employees to debate the morality of organizational practices. For example, at Nevada based Zappos, the online retailer fêted for its democratic organizing principles, employees are actively encouraged to consider such questions as whether their company has a higher purpose than profit, or if their own role has personal meaning. These conversations form part of a deliberate strategy of embedding the value of employee voice. But ground breaking as such culture-building experiments can be, our research suggests that moral debate and action become

organizationally productive only when managers are also politically able. Emancipation alone is not enough to engender moral communities.

### **Moral Communities as Governance**

Generating a level of commitment to the moral imperatives of good governance must be the product of effective political leadership at grassroots level. Leaders capable of fostering debate establish the possibility of self-regulating communities emerging, bound together by trust founded on levels of mutuality with the organization. Once formed, those groups contain the potential to check the power invested in formal hierarchy, but again, only if led with political prowess.

Examples are to be found of democratic leadership initiatives that could provide the cultural prerequisite for the formation of moral communities. In Whole Foods, the U.S.-based grocery chain, managers consult on all store-level decisions, and give departmental teams the autonomy and financial data to decide what to stock and whom to hire. Similarly, U.S. steelmaker Nucor allows operating budgets to rest with the front line workforce. Even with nearly 12,000 employees, strategy making is still an inclusive process. And a few years ago IBM undertook a review of its future values across its entire workforce in a three day “values jam.”

More formal, albeit nascent efforts, towards creating the political capabilities necessary to host moral communities can be seen in some organizations. In W. L. Gore and Associates, a technology manufacturer with over 50 facilities worldwide, team members select leaders who are then responsible for championing their team in the business. Those leaders are known as “sponsors.” DaVita, a leading provider of dialysis services in the U.S., gives each clinic the freedom to develop its local strategy within a broad framework. Decisions that can affect the company are influenced by those who have the best information within the clinics, but they have to be able to argue their case. Whether such attempts encourage the formation of moral communities, able to check corporate decision-making, is a critical indicator for embedded good governance. In this regard, what distinguished the leadership approach in Air Partner was constructive political challenge being held as up as a legitimate mechanism for managing the business.

With the need to create just such organizational conditions in mind, the list below describes the kinds of activities that might be of practical use to managers.

### **5 Principles for Building Engagement and Moral Communities**

1. Ask employees what good governance means to them.
2. Justify to employees the logic and reasoning for governance codes and practices required by the Board.
3. Create opportunity to develop personal ethical agendas, for example, by debating “how we do business.”

4. Develop constructive political skills in all key managers.
5. Encourage knowledge transfer between “pockets of good governance practice” (see *Organization Dynamics* 31.1).

One learning and development director we know in a global construction equipment supplier took this list to heart and introduced sessions on politics and ethical integrity into the talent development programs he organized. In this way, he reasoned, high potential future leaders were required to consider the possibility of creating moral communities within the business.

## **CONCLUSION**

Over the last ten years, the governance lessons learned from corporate failures have tended to focus on increasing regulation, transparency, and accountability of executive powers in allocating corporate resources. Sarbanes Oxley in the U.S. and the Walker Report in the U.K. prioritized reporting structures, audit and internal controls. This is to be expected within all that is upheld as rational mindset best practice, and is therefore as things should be. Similarly, the 2010 PwC Corporate Governance Best Practice Compendium focuses on the dissemination of corporate codes of ethics. There is little attention given to what happens below executive level. Control is assumed to flow rationally from the board downwards.

We intend no criticism of the inherent value in such prescriptions. But the idea that ethical political agendas should be considered a democratic asset, just as integral to effective governance as remuneration committees and shareholder scrutiny, remains obscured by rational mindset dominance. Along with other commentators we support the view that effective governance is “not just about the board – it’s about how governance is understood and acted upon throughout the business – from the boardroom to the shop floor” (Governance statement, U.K. retailer Marks & Spencer). M&S has established business development groups (BIGs), where employees have a chance to voice their opinions, get answers and ensure their views are represented. The BIG network provides an opportunity for all to influence the business in which they work.

We contend that such engagement from the shop floor is only possible when leaders at that level genuinely embrace the utility of democratic debate, making personal and everyday choices about what is right and wrong. This debate is realized through a mindset that values diversity of opinion and the constructive political processes required to reconcile competing agendas. Crucially, the debate needs to be permitted by those above.

The pedagogic principles that would enable the moral reasoning of executives such as Mark Briffa are increasingly being researched by business education experts. However, as we argued in our original paper, the rational mindset is as dominant in business schools as it is in business. That said, we now believe there are new influences at play in both the supply and demand for business school education. These may present possibilities for B-School faculty and learning professionals to explore

more fruitfully the principles of democratic political leadership in pursuit of moral engagement. Of particular importance here is the increasing debate, both inside and outside academia, as to the role of management learning in organizational practice.

Nevertheless, we should not expect management learning alone to be the impetus in advancing the case for good governance through moral communities. Education will always be a long-term solution in any social endeavor. But then that is the problem: it is long-term. It is surely better that businesses recognize the true value of morally committed leaders to be found on their organizational equivalent of trading floors and drilling platforms. That way, boards may be morally guided at times from within their organizations, rather than overly focused on the governance imperatives it is their responsibility to drive. To do so, they would need to see clearly the virtuous connections between democratically led debate, moral engagement, and good governance.

### **SELECTED BIBLIOGRAPHY**

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450; and of course Butcher and Clarke, "Organizational Politics: The Cornerstone of Organizational Democracy," *Organization Dynamics*, 2002, 31 (1), 35–46.

## **EXECUTIVE SUMMARY**

The sub-prime lending crisis showed again that board level commitment to effective governance is insufficient to encourage responsible corporate behavior. We argue this is because executive led governance principles must be accompanied by the creation of moral communities in organizations. This enables boards to harness the ethical agendas inherent in the politics of stakeholder interests in pursuit of good governance. In 2002, we published an article in *Organizational Dynamics*, claiming there are lessons to be learned from the virtues of democratic political systems for the appropriate management of organizational politics. Since then, we have undertaken further research to explore how politics work in practice to address stakeholder differences. The present article describes these advances. We seek to provide both compelling reasons and practical ideas as to how the notion of democratic politics in organizations may be harnessed in pursuit of ethical decision-making, employee engagement and good governance.

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