

Chester Barnard¹

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Oliver Williamson did his doctoral training at Carnegie and it is clear that the behavioral theory of the firm – originating from the Carnegie School (Cyert and March, 1963; March and Simon, 1958; Simon, 1947) – is an important building block to transaction cost theory (Williamson, 1975). The most important antecedent of the Carnegie School was Chester Barnard's (1938) *The Functions of the Executive*. Indeed, Barnard wrote the foreword to Simon's (1947) *Administrative Behavior*, and Barnard (1938) foreshadowed the concepts of authority and bounded rationality (Simon, 1947). According to Williamson, Barnard (1938) developed the following: '(1) Organization form – that is, formal organization matters; (2) informal organization has both instrumental and humanizing purposes; (3) bounds on rationality are acknowledged; (4) adaptive, sequential decision-making is vital to organizational effectiveness; and (5) tacit knowledge is important' (1985, p. 6).

Andrews maintains that: '*The Functions of the Executive* [is] the most thought-provoking book on organization and management ever written by a practicing executive' (1968, p. xxi), and attributes its endurance to Barnard's (1) capacity for abstract thought; (2) ability to apply reason to professional experiences; (3) probable expertness in practice; and (4) simultaneous exercise of reason and competence. Barnard's aspiration was contributing to a 'science of organization' (1938, p. 290).

Barnard's *The Functions of the Executive* emphasizes skills, judgment, stewardship and professionalism, and connects ethical and practical teachings. Barnard's (1938) impact on organization theory is well documented (Scott, 1987; Williamson, 1995), and even those taking vigorous exception concede its vast influence: 'This ... remarkable book contains within it the seeds of three distinct trends of organizational theory that were to dominate the field for the next three decades. One was the institutional theory as represented by Philip Selznick [1957]; another was the decision-making school as represented by Herbert Simon [1947]; the third was the human relations school' (Perrow, 1986, p. 63).

Barnard (1938) reflects readings in anthropology, economics, law, philosophy, political science, psychology and sociology. It presents a *systems* view of organizations containing a psychological theory of motivation and behavior, a sociological theory of cooperation and complex interdependencies, and an ideology based on meritocracy.

Barnard (1938) provides organizational theory based on *structural concepts* of: the individual and bounded rationality; cooperation; formal organization; and informal organization. *Dynamic concepts* include: free will; communication; a consent theory of authority; the decision process; dynamic equilibrium and the inducement-contributions balance; and leadership and executive responsibility. We consider each of these concepts in turn.

Structural Concepts

The individual and bounded rationality. Persons have power of choice, capacity of determination, and possession of free will. But, individuals are limited in terms of biological faculties and capacities (Barnard, 1938, p. 23). Organizations as cooperative systems are seen as overcoming physical and cognitive limitations (bounded rationality) of individuals.

Cooperation. Barnard submits that cooperation means: genuine restraint of self, service for no reward; courage to fight for principles; and genuine subjection of personal to social interests. When a cooperative system's purpose is attained, cooperation is *effective* (1938, p. 43). Cooperative effort is greatly limited if confidence is lacking in the sincerity and integrity of management. Barnard (1948, p. 11) maintains that:

When a condition of honesty and sincerity is recognized to exist, errors of judgment, defects of ability, are sympathetically endured. They are expected. Employees don't ascribe infallibility to leaders or management. What does disturb them is insincerity and the appearance of insincerity when the facts are not in their possession.

Formal organization. Formal organization is viewed as 'that kind of cooperation ... that is conscious, deliberate, purposeful' (Barnard, 1938, p. 4) and as 'a system of consciously coordinated activities ... of two or more persons' (1938, p. 73) in which the 'creative side of organization is coordination' (1938, p. 256). Scott submits that while Barnard (1938) contains ideas consistent with a 'rational system conception of organizations; what sets them apart is his insistence on the nonmaterial, informal, interpersonal, and, indeed, moral basis of cooperation' (1987, p. 63).

Barnard reminds us of the difficult task of achieving and maintaining cooperative systems: 'successful cooperation in or by formal organization is the abnormal, not the normal condition. What are observed from day to day are the successful survivors among innumerable failures' (1938, p. 5). Within formal organization, Barnard (1938) believed in genuine planning – a process of developing and applying knowledge and intelligence to business problems.

Informal organization. Barnard views “learning the organization ropes” in most organizations is chiefly learning who’s who, what’s what, why’s why, of its informal society’ (1938, p. 121), and sees informal organization as complementary to formal organization. Informal organization improves communication, enhances cohesiveness within formal organization, and protects the integrity of individuals. Informal organization ‘is to be regarded as a means of maintaining the personality of the individual against certain effects of formal organizations which tend to disintegrate the personality’ (Barnard, 1938, p. 122). The responsibility of management is to balance improving organizational effectiveness and maintaining the individual, who is central in managing personnel where hypocrisy is identified as fatal (Barnard, 1948, p. 9).

Dynamic Concepts

Free will. Free will is central to Barnard’s (1938) behavioral theory derived from moral and legal doctrines emphasizing personal responsibility for actions. Endorsement of the free will doctrine underpins management’s moral obligations: ‘the idea of free will is inculcated in doctrines of personal responsibility, of moral responsibility, and of legal responsibility. This seems necessary to preserve a sense of personal integrity’ (1938, p. 13).

Communication. Barnard emphasizes that common organizational purpose can only be achieved if it is commonly known, and thus must be communicated effectively in language, oral and written (1938, p. 89). Tacit understandings are often essential (1938, pp. 301-322).

Consent theory of authority. Barnard (1938) maintains that management’s authority requires ability to persuade rather than command, and legitimate authority is based on functional skills and not hierarchical position. Organization personnel accept a communication as authoritative when they: understand it; believe it is not inconsistent with organizational purpose; believe it compatible with their personal interest as a whole; are able mentally and physically to comply; and is acceptable within a *zone of indifference* (1938, pp. 165-167). Barnard notes that: ‘Either as a superior officer or as a subordinate, however, I know nothing that I actually regard as more “real” than “authority”’ (1938, p. 70).

Decision-making and the decision process. Although organization theory on decision-making from Simon (1947) to the present is expansive, Barnard (1938, p. 189) provides this unique perspective:

The making of decisions, as everyone knows from personal experience is a burdensome task. Offsetting the exhilaration that may result from correct and successful decision and the relief that follows the terminating of a struggle to determine issues is the depression that comes from failure or error of decision and the frustration which ensues from uncertainty.

Barnard (1938) warns of a tendency for personnel to avoid responsibility (due in part to fear of criticism) and that an executive must distribute responsibility, or otherwise run the risk of being overwhelmed with the burdens of decision: 'The fine art of executive decision consists in not deciding questions that are not pertinent, in not deciding prematurely, in not making decisions that cannot be made effective, and in not making decisions that others should make' (Barnard, 1938, p. 194). Barnard returns to this theme in a 1961 interview: 'You put a man in charge of an organization and your worst difficulty is that he thinks he has to tell everybody what to do; and that's almost fatal if it's carried far enough' (Wolf, 1973, p. 30).

Dynamic equilibrium and the inducement-contributions balance: The efficiency and effectiveness of an organization depends upon what the organization secures and the personnel produce (the contributions) and how the organization distributes its resources (the inducements), and these contributions and inducements are dynamic (Barnard, 1938, pp. 57-59). Inducements include material inducements, personal non-material opportunities, desirable physical conditions, ideal benefactions, associational attractiveness, opportunities for enlarged participation, and the condition of communion (1938, p. 142). Barnard (1948, p. 15) emphasized non-economic motives:

Prestige, competitive reputation, social philosophy, social standing, philanthropic interests, combativeness, love of intrigue, dislike of friction, technical interest, Napoleonic dreams, love of accomplishing useful things, desire for regard of employees, love of publicity, fear of publicity – a long catalogue of non-economic motives actually condition the management of business, and nothing but the balance sheet keeps these non-economic motives from running wild. Yet without all these incentives, I think most business would be a lifeless failure.

Leadership, executive responsibility and moral codes. For Barnard much is given to leaders and much is expected, and leadership is the key factor in cooperation. While cooperation is the creative process, leadership is the 'indispensable fulminator of its forces' (1938, p. 259). The fundamental function of a leader is to create meaning for followers facilitating their commitment and identification: 'The inculcation of belief in the real existence of a common purpose is an essential executive function' (1938, p. 87). Leadership is 'connected with knowing whom to believe, with

accepting the right suggestions, with selecting appropriate occasions and times ... – an understanding that leads to distinguishing effectively between the important and the unimportant *in the particular concrete situation*, between what can and what cannot be done, between what will probably succeed and what will probably not, between what will weaken cooperation and what will increase it' (Barnard, 1948, pp. 86-87).

Leadership must go beyond deciding the right thing to do, and to the job of getting it done. Barnard states that: 'An executive is a teacher; most people don't think of him that way, but that's what he is. He can't do very much unless he can teach people. ... You can't just pick out people and stick them in a job and say go ahead and do it. You've got to give them a philosophy to work against, you've got to state the goals, you've got to indicate the limitations and the methods' (Wolf, 1973, pp. 7-8). Leadership involves guiding others. Leaders must effectively convey meanings and intentions and receive them with sympathetic understanding (1948, pp. 97-99). Barnard (1948, pp. 109-110) describes the nature of leadership:

It is in the nature of a leader's work that he should be a realist and should recognize the need for action, even when the outcome cannot be foreseen, but also that he should be idealist and in the broadest sense pursue goals some of which can only be attained in a succeeding generation of leaders. Many leaders when they reach the apex of their powers have not long to go, and they press onward by paths the ends of which they will not themselves reach. In business, in education, in government, in religion, again and again, I see men who, I am sure, are dominated by this motive, though unexpressed, and by some queer twist of our present attitudes often disavowed. Yet, '*Old men [and old women] plant trees*'... to shape the present for the future by the surplus of thought and purpose which we now can muster seems the very expression of the idealism which underlies such social coherence as we presently achieve, and without this idealism we see no worthy meaning in our lives, our institutions, or our culture.

In the expression, 'old men [and old women] plant trees' Barnard (1948) indicates that the moral factor is real and that faith in others is supported by observation. Within the cooperative system, the moral factor finds its expression and suggests the necessity of leadership and '*the power of individuals to inspire cooperative personal decision by creating faith*: faith in common understanding, faith in the probability of success, faith in the ultimate satisfaction of personal motives, faith in the integrity of objective authority, faith in the superiority of common purpose as a personal aim of those who partake in it' (Barnard, 1938, p. 259).

The part of leadership that determines the *quality* of action is responsibility. Responsibility is the ‘quality which gives dependability and determination to human conduct, and foresight and ideality to purpose’ (Barnard, 1938, p. 260) and is the most important function of the executive. Responsibility means honor and faithfulness in the manner that managers carry out their duties and is defined as an ‘emotional condition that gives an individual a sense of acute dissatisfaction because of failure to do what he feels he is morally bound to do or because of doing what he thinks he is morally bound not to do, in particular concrete situations’ (Barnard, 1948, p. 95). Carrying out this function builds the character of executives who must decide and act under the burden of responsibility. Barnard in 1961 evaluates his 1938 classic: ‘In my opinion, the great weakness of my book is that it doesn’t deal adequately with the question of responsibility and its delegation. The emphasis is too much on authority, which is the subordinate subject. ... The emphasis is put on authority which, to me now, is a secondary, derivative setup’ (Wolf, 1973, p. 15).

Barnard maintains that: ‘nearly everything depends upon the moral commitment. I’m perfectly confident that, with occasional lapses, if I make a date with you, whom I have never met, you’ll keep it and you’ll feel confident that I’ll keep it; and there’s absolutely nothing binding that makes us do it. And yet the world runs on that – you just couldn’t run a college, you couldn’t run a business, you couldn’t run a church, couldn’t do anything except on the basis of the moral commitments that are involved in what we call responsibility. You can’t operate a large organization unless you can delegate responsibility, not authority but responsibility’ (Wolf, 1973, p. 35). Ethical practice determines management’s moral authority and the capability of managers to pass their power to the next generation: ‘responsibility is the property of an individual by which whatever morality exists in him becomes effective in conduct’ (Barnard, 1938, p. 267).

The survival of organizations as going concerns depend on moral commitment: ‘Organizations endure ... in proportion to the breadth of morality by which they are governed. This is only to say that foresight, long purposes, high ideals are the basis for the persistence of cooperation’ (Barnard, 1938, p. 282). Barnard recommended combining the two cultures of management – its science and art, calling for ‘a social anthropology, a sociology, a social psychology, an institutional economics, a treatise on management’ (1938, p. 293). However, we should not deceive ourselves that a science of organization will be enough: ‘Inspiration is necessary to inculcate the sense of unity, and to create common ideals. Emotional rather than intellectual acceptance is required’ (Barnard, 1938, p. 293).

Conclusions

Williamson (1996, pp. 41-42) articulates the uses of Barnard (1938) to transaction cost economics including that the formal organization is important; the central problem of organization is adaptation; and the study of induced cooperation deserves a prominent place on the research agenda. In addition, I emphasize here that management requires both art and science and Barnard (1938) achieves this balance. Barnard (1938) is enriching when read for the practical purpose of understanding the science of management, but it is an aesthetic reading that explains the *intensity* of responses to this classic. Barnard (1938) offers an intense, structured and coherent work that depends on students using their capacities to apprehend the aesthetic experience of management based on the author's intimate habitual interested experience. Barnard dedicates his book to his father: 'At a crisis in my youth, he taught me the wisdom of choice: To try and fail is at least to learn; to fail to try is to suffer the inestimable loss of what might have been.' Toward the purpose of conveying the aesthetic experience of management, Barnard (1938) did not fail.

Barnard's finale (1938, p. 296) is an exemplar of the poetic and provocative nature of his work:

This study, without the intent of the writer or the expectation of the reader, had at its heart this deep paradox and conflict of feelings in the lives of men. Free and unfree, controlling and controlled, choosing and being chosen, inducing and unable to resist inducement, the source of authority and unable to deny it, independent and dependent, nourishing their personalities, and yet depersonalized; forming purposes and being forced to change them, searching for limitations in order to make decisions, seeking the particular but concerned with the whole, finding leaders and denying their leadership, hoping to dominate the earth and being dominated by the unseen – this is the story of man in society told in these pages. Such a story calls finally for a declaration of faith. I believe in the power of the cooperation of men of free will to make men free to cooperate; that only as they choose to work together can they achieve the fullness of personal development; that only as each accepts a responsibility for choice can they enter into the communion of men from which arise the higher purposes of individual and of cooperative behavior alike. I believe that the expansion of cooperation and the development of the individual are mutually dependent realities, and that a due proportion or balance between them is a necessary condition of human welfare. Because it is subjective with respect both to society as a whole and to the individual, what this proportion is I believe science cannot say. It is a question for philosophy and religion.

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Notes

¹ This essay draws from Mahoney (2002).