

Can Simon's notion of 'bounded rationality' give us new ideas about leadership?

JC Spender, Visiting Professor, LUBS

Leadership is a real problem – my impolite way of suggesting we probably need better leadership in virtually every field of human endeavor and at every level. Leaving aside our Mid-East adventures and the parlous state of our health care and education systems, organizational leadership lambasters are prone to quote Jim Collins's data that only around 30% of the employees in most large companies have any sense of how what they are doing contributes to the overall goal. I am also astonished to find how many Business School students, given a chance to specialize in leadership, regard it as the most obvious and interesting option to study. Yet, when they come to our literature, they do not find analyses of, for instance, Churchill, the Catholic Church, or Mother Theresa that they can use to shape their own practice. Instead they find us retreating into academic language-games. We cannot resist the temptation to rehearse the established positions, traitism, path-goal, style, contingency, or transformational notions of organizational leadership, as a backdrop to some similar, albeit novel, propositions. In this essay I move in a rather different direction, though circle back eventually to these conventions, spiced with a bit of Mother Theresa or, more to the point, Winston Churchill and the Catholic Church.

My title's reference to Simon's work seems a little odd because his work is not really considered part of the leadership literature. Yet there is a definite theory of organizational leadership buried within it, and the first part of my essay surfaces this. But I go on to suggest Simon did not go far enough in using the lever of uncertainty to push towards a new theory of organizations and their leadership. Rather we are left, post-Simon, looking for a theory that engages models of the individual - what used to be called Models of Man - that are viable alternatives to that of Rational Man. Simon effectively dismissed the Rational Man model but did not replace it. Instead of inventing something new, such as that suggested in recent neurological research, I look backwards to the time before Rational Man's coming and appeal to a model of the individual that was familiar to Enlightenment philosophers such as Bacon and Locke. This presumes individuals are both rational and imaginative, with imagination stepping in when rationality fails, while rationality orders the fruits of the

imagination into what we call knowledge. The implication of this switch of axioms is that for organizations to work, their leaders must shape others' imaginings just as much as they shape their reasoning.

At the beginning of *Administrative Behavior*¹, Simon did some academic 'sneering', to use McCloskey's² distressingly appropriate term for what many of us academics do, at what he called the 'proverbs' of administrative theory, by which he meant organizational prescriptions such as 'unity of command' or 'specialize'. He saw these occurring in pairs, the one contradicting the other. His main targets were Gulick & Urwick³, or more precisely, the proposition that management could be summed up with the acronym POSDCORB - or, for those who no longer remember that - planning, organizing, staffing, directing, coordinating, reporting, and budgeting, the seven leadership activities distilled from Fayol's earlier list of 14. Simon argued the proverbs were contradictory, tautological and therefore useless either as design rules or as the basis for a theory of administration, though they might be useful as heuristics or guides to managerial practice.

The difference he saw was between scientific law-like rules to be applied in the fully determined situations imagined by theorists and the practical challenge to managers dealing with the complex of forces shaping decisions in real and therefore incompletely understood situations. Simon argued the administrator's role in the first was trivial, but in the second substantial; absent bounded rationality, he said, there would be no call for a theory of administration. Thus administrative decision-making should be understood as a process performed by real people acting under the real conditions of their limited or bounded rationality. We have heard this repeated so often we might think we have a good understanding of what Simon was getting at. Speaking for myself, I am not so sure I do, and re-reading *Administrative Behavior* again recently generated the surprises that close study of Simon's work inevitably provokes. I had not previously thought of his book as part of the leadership literature, so my first surprise was to find it offered a theory we can contrast with the mainstream literature.

Given the rhetoric around bounded rationality one of the less obvious things to grasp is that Simon's argument was not really an attack on rationality in the sense that some post-modern epistemologists might argue that it is a human or social construct or, somewhat less radical, the many writers who see

¹ Simon, H. A. (1997). *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization* (4th ed.). New York: Free Press.

² McCloskey, D. N. (1998). *The Rhetoric of Economics* (2nd ed.). Madison WI: University of Wisconsin Press.

³ Gulick, L., & Urwick, L. (Eds.). (1977). *Papers on the Science of Administration*. Fairfield CT: Augustus M. Kelley.

emotion as an alternative basis for analyzing how managers arrive at their conclusions. When speaking of rationality Simon was inclined to use modifiers such as ‘intendedly’ or ‘deliberately’ or ‘organizationally’ – thereby leaving ‘rationality’ at the core of his analysis. The administrative or leadership task was then to shape the decision premises of others so that, though only boundedly or intendedly rational in their decision-making, they still chose in ways that reflected the organization’s goals rather than their own. Many economists call this the principal-agent problem. Rather than the incentives to the agent’s rationality which the economists analyze, Simon envisaged a complex division of what he called the vertical labor of influencing the resource-consuming and value-generating operative, whom he saw as the locus of the organization’s practice. This cascade parsed and reconstructed the organization’s goals into the decision premises associated with each employee’s work situation. He used military examples extensively arguing, for instance, that the senior officer’s mind was able to influence the practice of the foot-soldier in ways the soldier need not understand yet would make the overall objective of defeating the enemy more likely.

Simon’s key insight was that this system of influence must reflect the various ways in which each subordinate is less than completely rational with regard to her/his particular situation. He offered us three dimensions of rationality-failure: (a) the operative’s loyalties to the organization’s sub-groups other than to the organization as a whole, (b) the operative’s limited knowledge of the context of his/her own action, and (c) the limited inventory of skills and tacit knowledge s/he brings to choosing a practice. The first dimension of compromised operative loyalty gave rise to March & Simon’s seminal 1958 analysis of bureaucratic dysfunctionality. Already, a decade earlier, in *Administrative Behavior*, Simon saw loyalty to the department as potentially dysfunctional for the organization as a whole. University folks know this well as we struggle for funds and favor against our institution’s other schools. We are also distressingly familiar with the second dimension, that of limited knowledge, which helps account for our unabated nervousness about what we have not yet read. In short, our decisions are made by processing the data we have rather than the data we might hope for, to borrow from an expression from Donald Rumsfeld.

But I suspect the third dimension of rationality-failure is the most under-appreciated; yet Simon’s treatment of intuition and other forms of tacit knowledge turns out to be pivotal to his entire *oeuvre*. We are familiar with his assertion that ‘intuition is analysis frozen into habit’. The crucial point being that Simon saw tacit learning as the sedimentation of boundedly rational analysis rather than as the acquisition of some other kind of knowledge, such as emotion or revelation or pre-rationality. What I am pointing to here is that Simon, as a self-confessed positivist, admitted no forms of knowledge other than that standing on rationality. In Chapter V he specifically denied the need to consider

bicameral brains - Broca's venerable left/right thesis - or two 'problem-solving styles', one conscious and rational, the other intuitive and irrational. He rather smugly explained how he finessed the notion of the subconscious by presuming it operated in the manner of the conscious brain⁴.

In spite of Simon's enormous influence on our theorizing there seem to be remarkably few analyses, let alone critiques of his ideas. I do not recall any substantial analysis besides Foss's series of articles⁵ - and those are largely directed at the economics discipline for its failure to take up the challenge of bounded rationality. We need to remember that Simon's Nobel was the one for economics. But I am only speaking for myself here. To begin with, Simon's theory of administrative leadership, heavily indebted to Barnard's mentoring, proceeded from an unproblematic notion of organizational goal; and here his language was actually rather curious. Not only did he presume this goal was both knowable and coherent, in spite of bounded rationality, he also made much of the separation of facts and values; though he did not mean what one might initially presume. As a political scientist whose first book was about the organization and operation of a government department⁶, he was well equipped to address the political, ethical and moral issues.

Simon used the term 'value' in a special way, to delineate the organization's goal. The organization's goals are values only in the sense of being beyond explanation, beyond being evaluated in any rational manner, somewhat as Weber told us that a tradition's origins get lost in the mists of time. In contrast, 'facts' refer to the tangible known constraints on the decision makers as they pursue the organization's values i.e. its chosen goals. Thus the organization's rationality is bounded both by the instructions of those with the power, political, economic or social, to declare and enforce these value-goals, and by the facts of the situation in which these goals are to be pursued. As Simon put it, the organization's values are its 'ought-s' while facts referred to its 'is-s'. We might also see administration as about negotiating or managing the space between the world of freely imagined goals and pre-given physical or factual constraints over the actions necessary to achieve them.

This maneuver parses Simon's theory of administrative leadership into three parts, each reflecting the particular ways in which the limits to rationality impact the organization's management. First, there

⁴ Simon, H. A. (1997). *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization* (4th ed.). New York: Free Press. p.131.

⁵ Foss, N. J. (2003). Bounded Rationality in the Economics of Organization: "Much Cited and Little Used". *Journal of Economic Psychology*, 24(2), 245-264.

⁶ Simon, H. A. (1941). *Determining Work Loads for Professional Staff in a Public Welfare Agency*. Berkeley CA: Bureau of Public Administration, University of California.

is the task of determining goals, what we might call the 'strategic' or 'entrepreneurial' leadership challenge. There is no question that senior executives cannot ever have complete information about all the possibilities, nor about all the many intended and unintended consequences of their strategic choices, to use Child's term⁷. At the same time they are not free to choose as they wish, to work on a blank canvas, so to speak. We can recall Learned, Christensen, Andrews & Guth's⁸ notion - derived from the work of the same John R. Commons who exerted such an early influence on Simon⁹ - that corporate strategists are constrained to choose within the complex and pluralistic framework of what they 'want to do, might do, can do and ought to do'. Second, there is a 'managerial' or 'organizational' level of leadership, the articulation and enactment of the previously chosen goals in the discovered context of the situation's facts. Here Simon focused mainly on the organization's design and on the systems for communicating rules and measuring performance within the resulting division of labor, both horizontal and vertical.

Finally, there is the 'leadership of the individual' which frames the employee's 'decision to participate' in the organization. Simon was somewhat ambivalent about whether aspects like individual leadership and strategic leadership lay inside or outside the organization and thus whether they were part of administration theory's ambit, or not. Being both a Chicago economist and a political scientist he was inclined towards thinking of strategic leadership as reflecting the environmental choices open to senior managers, narrower in the public sector than in the private. Likewise he located the possibility of individual leadership within the system of individual motivations open to those in a democratic society wherein individuals are not forced to participate in organizations but can choose. My intent here is not to analyze or critique Simon's approach in any great depth, merely to point to three conclusions. First, his theory of administration was more extensive than much of the mainstream leadership literature - which, in comparison, seems overly focused on the individual's motivations and job satisfaction, and on the rational incentives, whether extrinsic or intrinsic, that might bear on the individual's decision to participate. Second, his theory is wholly situated, contingent on the organization's factual situation in precisely the manner suggested earlier by Barnard with his three incommensurate sub-systems; physical, social, and psychological. Third, Simon's theory raises unconsidered questions about how the three different modes of leadership -

⁷ Child, J. (1972). Organisation Structure, Environment and Performance. *Sociology*, 6, 1-21.

⁸ Learned, E., Christensen, R., Andrews, K., & Guth, W. (1965). *Business Policy: Text and Cases*. Homewood IL: Richard D. Irwin.

⁹ Crowther-Heyck, H. (2005). *Herbert A. Simon - The Bounds of Reason in America*. Baltimore PA: Johns Hopkins University Press.

strategic, managerial, and individual - might be integrated into the functions of the corporate executive - about which Barnard had already said much.

Being very much a follower of these two theorists, I have serious doubts about the current wisdom of separating the fields of strategic management, entrepreneurship, and leadership – the first two with their own Academy of Management Divisions, the last curiously without one, though it is clearly a distinct discipline with its own professoriate and journals, such as *Leadership Quarterly*, *Educational Management Administration & Leadership*, and this journal. As economists know, the demarcations between the three disciplines, indeed the disciplines themselves, disappear under conditions of perfect rationality, for then rationality is all that is required. All are contingent on the contextualized modes of rationality-failure managers deal with. This historically based but nonetheless artificial separation of disciplines puts us into the situation of the blind men exploring the elephant, and to no good academic purpose. By the same token, we lose sight of what one might mean by a general or universal theory of leadership.

For all his profound insights, Simon's theorizing remained narrowly, perhaps paradoxically, dependent on the notion of perfect rationality, for he admitted no other form of knowledge. This has the rather odd effect of pointing out some problems without suggesting any solutions, which thereby rendered bounded rationality a topic much cited and little used¹⁰. Problem definition is an important step towards generating better solutions, of course, but in Simon's case I feel, with great respect, his failure to grapple with the implications of bounded rationality cuts considerable support from under his reputation. What, in the end, did he contribute to our theories of administration, leadership and management - other than coining 'bounded rationality' as a warning to naïve theorizing? His 1978 Nobel was for 'pioneering research into the decision-making process in economic organization', which work presumed, of course, the prior existence of organizations. My conclusion, along with Simon's, is that under conditions of perfect rationality there is no need or conceptual space for a theory of administration. Nor, in the spirit of Williamson's work on organizational transaction cost based decision-making and Hayek's appreciation of market forces, any space for organizations either.

It follows that absent uncertainty, of which bounded rationality is but one type or description, there is no need or place for organizational leadership. Leadership is only meaningful under conditions of uncertainty, and what leadership is and what it delivers is entirely dependent on the particular

¹⁰ Foss, N. J. *op. cit.*

uncertainties and contingencies that characterize the situation being analyzed, whether that be on the battle-field, in a commercial organization, or in a political debate. Thus leadership is an empirical notion about us and our collaborations, about how we collectively inhabit an uncertain world that cannot be effectively framed within an abstract system of ideas or principles removed from our history and psychology, or time and space. Nor does it make sense to argue leadership theorizing should embrace the entire human condition, as we imply when we take up the traitist view i.e. leaders are those with the ability to lead in any and every context. Thus to make leadership comprehensible and actionable, we in business schools might better focus on the specifics of what we uncritically call organizations, for there is little prospect of a theory of leadership divorced from a corresponding theory of the organization led. The facts are, as Simon showed, that we have no satisfactory theory of the organization and probably no satisfactory theory of the firm either. Economists, who heroically take markets for granted, are more publicly puzzled about organizations. The widespread attention to transactions cost and resource-based theorizing grows out of their puzzling. Thus real economists, such as Arrow, Alchian or Demsetz¹¹, find no compelling explanation for firms' existence and, by extension, no compelling place for a theory of their leadership. In the end, theories of leadership and of organization (a) complement each other, and (b) are only realizable in the non-perfect contingent context in which the leader and her/his organization find themselves.

But a critique of either organizational or leadership theorizing that is abstract and thus de-contextualized is peripheral to this essay's purpose. Rather I want to stress their inter-relationship and suggest we might well ponder a theory of the organization to be led as a means to approach the theory of leading it. If we see the organization as a rule-based data-reduction engine, then leadership is merely its design and operation. If we see it as defined by a group of individuals with shared intentions and values, then leadership is about choosing these and communicating them. Simon's theory was essentially that of a bureaucracy penetrated - or hobbled - by limited rationality and that implies its own peculiar view of leadership. Likewise other theories, such as the organization as a mini-society, or as a self-regulating complex system, or as a contested political terrain, bring up different theories of leadership. To help move us on from this plurality of theoretical riches I shall take up Coase's question of 'Why organizations anyway?' reconsidering the neo-Weberian ground which still underpins the mainstream literature and our A-journals.

¹¹ Demsetz, H. (1991). The Theory of the Firm Revisited. In O. E. Williamson & S. G. Winter (Eds.), *The Nature of the Firm: Origins, Evolution, and Development* (pp. 159-178). Oxford: Oxford University Press.
Foss, N. J., & Klein, P. G. (2005). The Theory of the Firm and Its Critics: A Stocktaking and Assessment. *Center for Knowledge Governance, Copenhagen School of Business, Working Paper 2/2005*.

It is curious how organization and management theorists take the existence of organizations for granted - as a sort of self-evident ontological fact. No question, if you are looking for a job or an investment opportunity it is handy to think firms or universities exist. But that is looking at them from the outside. What can 'the organization' mean to those inside whose activities bring them into existence at 8 am every weekday morning? Surely we cannot usefully examine such organizations by assuming their existence and, as an ancillary question, just where do our conventional theories place the firm's managers - within or without the organizations they manage? We need to destabilize this taken-for-granted ontology if we are to learn anything useful about what managers do as insiders rather than as lever-pulling and reward-allocating designers located outside their organizations. The rock-bottom issue, as Simon told us, is about critiquing rationality, or rather its application and place in organizations, without simply rejecting it in a Foucauldian moment and staggering off into New Age mysticism. We might say that just as Williamson bade us look for an explanation for organizations in market failures, so Simon earlier bade us look at the failures of individual rationality within the bureaucratic systems of purposive activity he also took for granted.

In lieu of completely new concepts, I feel we can make headway if we work with one or other of the established complements to rationality, thereby fashioning what we might call a friendly amendment to rationality – to save it from its hubris as the sole basis for our theorizing. The historical context for this is highly relevant for I would argue that we are all, citizen, manager and researcher alike, being carried headlong into a new post-modern age in which our excessive enthusiasm for rationality is being revealed for what it is, a bastard child of the Enlightenment. Our obsessive rationalism is not at all what drove the Enlightenment; the challenge then was to break the hold of religion over people's minds. At the start of the Enlightenment, as evident in the writings of Bacon and Locke we see their implicit model of the individual was far from Rational Man. On the contrary, it was an order of magnitude more complex, embracing first, both reason and imagination, and second, memory and emotion. To explain human organizations thoroughly we shall eventually need to adopt a model of the individual that embraces all four characteristics, but in the short term we might get somewhere useful by considering the interplay of just two, reason and imagination.

Understand what I mean is not at all what neurobiologists tell us they are observing in brain-scans when they tell us that individuals are either reasoning or imagining. Reason and imagination are essentially the rhetorical terms we adopt to explain to each other what we conclude about our own thinking, based on our own insight into our own consciousness - with all the assurance of *cogito ergo sum*. Thus reasoning and imagining are the two mutually defining qualities of mind we use to explain our thinking to others. To reason is to appeal to logic, something external to us, something others

can comment on - a kind of Habermasian inter-subjectivity. In contrast, to imagine is to engage in something intensely private without even the private language that Wittgenstein denied. Ultimately, perhaps, our imagining is simply us, and inasmuch as we are unique it may be because we imagine differently. This is a tautology, of course, for if our model of the human individual is defined as the practical interplay of reason and imagination, and if our reasoning is proposed as both logical and shared by all of our species, then it is in our imaginings that we must find our differences.

As we change our chosen model of the individual we also change our notion of leading her/him, and the suggestion at this stage is that we might develop a theory of leadership in which influencing reason, through rules and so forth, must be complemented by influencing others' imaginings. We head into deep water here and it will be easy to end up drowning rather than waving. My maneuver is to speak of imagination as a matter of assumption, as a term for that which stands outside our rationality. We can say no more about it than to express, based on our own experience, that it seems a useful term for a discourse with others. There is the Lord Kelvin thing here. Curiously, after rowing in the winning Cambridge boat in 1845, and so experiencing the tacitness of effective teamwork, he went on to assert that what is un-measurable is un-real. Measurable or not imagination or reason seem real enough to us. On the other hand we might be able to measure their appearance in the world, and that turns out to be something quite different. Here we speak of 'human agency', our ability to make a difference in our world in ways that we intend. We can certainly observe others' agency and might compare it to what we expect, given the premises on which we sense that individual acting. That comparison might tell us something about whether the person observed is being rational i.e. logical, or even 'boundedly' or 'intendedly' rational. But we cannot ever be entirely sure, for our assessment of their premises is itself an act of our imagination, not theirs, and what we take as their failure to be logical may be no more than our mistake, for they may imagine their premises differently than do we. Some may recognize this as a version of Duhem's thesis, and those managers who have given instructions, and then get surprised, know exactly what I mean - how on earth could they think that was what I meant? This is also what Heath & Heath call the 'knowledge curse'¹² so evident in the instructions to our new electronic gadgets – those that write them already know how the gadget works and do not have to learn by reading what they have written. We might do better to back off into Simon's position and agree that all we can manage are the premises to others' choices, not their choice-making processes themselves.

¹² Heath, C., & Heath, D. (2007). *Made to Stick: Why Some Ideas Survive and Others Die*. New York: Random House.

This shifts the focus of leadership theory from decision-making to agency. Agency is a wonderfully complex concept with an enormous literature¹³. It was pivotal to Enlightenment thinking. It brought human beings to the center of the discussion as the creative mediating force lying between cause and effect, and in this sense agency stands between free will and determinism. It is the core of humanism, the notion that we make a difference by creating the world and within which we have moral responsibility for our actions. Human imagination stands behind our agency, which is its irruption into the world we inhabit, our *'habitus'*. For that reason we can see the management of agency as both meaningful and quite distinct from the management of our imagination, which may well be beyond being managed. Thus Simon imagined the employee's agency could be shaped by manipulating the world into which her/his imagination is being projected.

This sounds more complicated than it is. First, there are physical constraints to one's agency as the implementation of one's imaginings. We can imagine perpetual motion machines but the Second Law of Thermodynamics tells us we cannot bring them into the world. Indeed we might see natural science as the systematic description of the discovered limits to our physical agency. There are other limits, of course, social, psychological, and so forth, reflecting the multi-dimensioned constraints of the *habitus* we have created through our agency. Together these categorizations correspond to the three sub-universes of Barnard's model. We see something of the same in Luhmann's social systems theory, with his separation of the social, the psychological, and the immediate. It is also worth considering the political and legal constraints to agency, or rather those on the entrepreneur putting together an organization. It is too bad that in business schools we pay little or no attention to the substance and evolution of corporate law or accounting. If we look at these sophisticated social institutions we see how they lay out highly specified contexts into which the entrepreneur's imagination can be legitimately projected. In this sense the firm is a reflection of the set of possibilities written into these structures, absent which organizations could not exist. Likewise the decision to participate is shaped by employment law and so on.

My general point is that instead of looking at the firm or organization as an entity with its own universal or essentialist properties, to be assiduously researched by those seeking publication in our positivistic A-journals, I am suggesting that every organization's nature is actually more bound up in the agentic interplay of entrepreneurial imagination and the specific historical set or complex of constraints that apply to the managers' specific situations. This leads directly to the notion that managers can shape the application of their reports' imagination by manipulating the constraints to

¹³ Emirbayer, M., & Mische, A. (1998). What is Agency? *American Journal of Sociology*, 103(4), 962-1023.

their agency. This contrasts with controlling their rationality through rules and instructions. There is nothing strange here, on the contrary, we are in familiar territory. Budgeting is a method of constraint rather than instruction; the manager sets a general objective but leaves the subordinate free to exercise her own agency so long as the result lies within the constraints of the budget. Likewise managers might shape a creative designer's agency by saying 'design this in aluminum not steel', or 'negotiate a contract but do not give more than 12% discount to this customer'. There is complementarity between direct instructions which deny the employee's agency and 'indirect' instructions which appeal to it. Again, the entirety of these direct and indirect constraints becomes the full description of the organizational reality the subordinate is operating agentially within, what we might call that employee's 'agentic space'. The point being that each employee's space is different and must be fashioned by managers with the organization's objectives in mind. We edge towards a contextualized notion of leadership as the establishment and operation of these agentic spaces, just as corporate law sets up and controls the agentic space for the firm as an independent economic entity.

At this point I want to change gears and jump to the theory of rhetoric on which Aristotle wrote so many years ago¹⁴. Rhetoric, I shall argue, is the primary tool managers have available to shape the agency of others. Language rather than logic is what matters to managers. Even though rhetoric dominated university education before many centuries preceding the Enlightenment, virtually all that remains of it today is 'correct composition' as taught in the English department. Alas how the mighty are fallen. But the rhetoric of management is crucial, something increasingly recognized around the world, spurred on by the work of McCloskey¹⁵ and Shapiro¹⁶. The point, of course, is that communication theory *a la* Shannon & Weaver is a miserable tool for dealing with the complex challenges managers face when seeking to shape the agentic spaces of others. Rhetoric is often labeled the art of persuasion and its three components, *logos*, *ethos* and *pathos*, are a distillation of how speakers might approach the task of persuading others. *Logos* is the appeal to reason and to the realm of facts, in Simon's sense. Values are the realm to which *ethos* and *pathos* appeal; or I would say *ethos* and *pathos* are important because they reach beyond the listeners' reasoning towards their imaginings. Thus switching to a more complex human model invites us to resuscitate rhetoric as a correspondingly more complex theory of human communication.

¹⁴ Aristotle. (1991). *The Art of Rhetoric*. London: Penguin Books.

¹⁵ McCloskey, D. N. (1998). *The Rhetoric of Economics* (2nd ed.). Madison WI: University of Wisconsin Press.

¹⁶ Shapiro, I. (2005). *The Flight from Reality in the Social Sciences*. Princeton NJ: Princeton University Press.

This is not the place to do more than mention the components of rhetorical theory. *Pathos* is the appeal to the listeners' emotions and to listen to Churchill's wartime speeches, or indeed those of Hitler, is to re-appreciate that rhetoric is as important today as it ever was in Aristotle's time. Most classical rhetoricians explain *ethos* as the appeal to the speaker's character, thus Colin Powell, whose reputation was such that he might well have denied George W. Bush the Presidency, became the tragic fall-guy for the Bush administration's mendacity. But I think this appeal to the speaker's character, as an isolated characteristic, is a serious mis-characterization for in the modern parlance we should argue that *ethos* is the appeal to the sense of society or social relations shared by speaker and listener alike, a sense that positions both in systems of power and reputation.

Thus the everyday practice of managerial rhetoric, whether it is exhortations in the manner of Henry V at *Agincourt* or Steve Jobs's expression of 'the computer for the rest of us', or threats of shop-floor redundancy from the Golden Parachuted senior managers at the Big Three US automakers, cannot be understood in purely rational terms. On the contrary the bulk of everyday management is about persuading others to bring their reason, imagination and energies to the bear on the firm's challenges and difficulties. So as we move to a more complex model of the individual, organizational leadership becomes more obviously a rhetorical process - for we are a communicative species. Thus rhetoric throws up a theory of the firm which embraces and complements the rationality based model on which most of our literature still stands. On the one hand we have the organization as a bureaucratic apparatus for harnessing the reason of those involved to the organization's chosen purposes; on the other we have the organization as an apparatus for harnessing their imagination, or more precisely, their agency.

At this point the reader might feel I have fallen into the trap mentioned earlier in regard to Simon's work. Simon, I suggested, pointed the way to exploring the limits to rationality without identifying what lay beyond it, what must complement it when it fails. If we are to consider a dualistic model of organization, rational on the one hand and agentic on the other, what holds it together? How do such different notions - Barnard's three incommensurate sub-systems, or Aristotle's three dimensions of rhetoric - get combined or integrated into the ongoing sense of coherence and order we take as the defining characteristic of 'the organization', that sense of persistence that persuades so many that organizations have an independent existence and ontology of their own?

Getting out of this trap brings me to the most difficult section of this essay, but also towards its conclusion. Simon was intellectually honest in ways that many organization theorists are not when

he used the terms 'docility' and 'indoctrination'¹⁷. Organization, he argued, depended on some people, employees perhaps, acting as embodiments of the organization's values, as if they have internalized them. This is the point, and it gets us back to Coase's question about the essential characteristic of organization. Coase defined firms as domains of socio-economic activity wherein the price mechanism had been suspended. Like 'bounded rationality' this definition stands on the absence of something, in this case the absence of market forces and mechanisms. This mode of definition by absence, incidentally, has ancient roots in mediaeval theology. The struggle here is to find something present on which to hang the definition. My suggestion is that we can hang the definition of organization on human agency - evidence of the context-inhabiting uncertainty-resolving imagination which stands outside rationality. But such agency can have no relevance to organization theory if it cannot be managed, just as evolutionary theory and self-organization views must be irrelevant if they deny managerial agency and strategic choice. Simon explored the notion of managing the constraints to the application of the imagination, but this presumes that imagination has been harnessed to the organization's purposes or, as some managers talk about it, 'owned'. Ultimately no amount of manipulation of premises matters if those being managed are not committed to the organization's goals. 'Owning' those goals is crucial but requires us to propose the individual has some degree of plasticity or malleability. This is the ultimate challenge for leadership, as Simon saw. But he could not fully articulate this intuition without relaxing his grip on rationality and adopting a model of the individual that had some further defining characteristic.

Simon's notion of docility was based on Tolman's ideas about how we learn - the basic idea is that our identities change. We are what we know through our reason and our imagination, not merely what we eat. Simon saw the objective of his administrative theory was to so hedge about the employee's application of his bounded rationality that he chose in ways determined by management - and in this sense no longer as 'himself', as private citizen, father, footballer, and so forth. It comes down to the creation of a practical and agentic organizational identity that stands apart from any non-organizational identity in which we might locate the rational decision to participate. Thus standing behind this switch of identities into something newly learned is a process of suspending alternative prior identities and taking up and acting on that of the organization. Anyone who has been through military boot-camp knows what this is about. Thus a more practical and positive restatement of Coase's definition is that the organization is a domain of social relationships wherein the employee's personal agency is suspended and replaced with an agency fashioned by others - an academic way of describing indoctrination. Many will object to this, arguing organization and democracy are perfectly

¹⁷ Simon, H. A. *op.cit.*, p.97.

compatible and that a person can choose to be an employee and retain a full 'normal' identity, an assumption that underpins the efforts of the many who want to 'humanize' the workplace. I think organization and democracy are not compatible; indeed I shall step further into these dangerous waters.

There is a curious lack of concern in rhetoric theory about how, given the obvious differences between *logos*, *ethos* and *pathos*, it is all supposed to come together into the plausible form of rhetorical proof called *pisteis*. I suspect this is really because the Ancients, and the Sicilian lawyers who first codified rhetoric, were generally of common mind in the sense of being card-carrying members of a small enfranchised elite who shared a common set of beliefs about how their society was supposed to operate i.e. classical rhetoric was 'preaching to the choir'. Old time sociologists used to call this the socially primitive state of 'mechanistic solidarity' or 'totalization'¹⁸. But as society changes, so does the agentic discourse on which its rhetoric is focused. After the rise of Christianity, rhetoric was completely transformed by scholars such as Thomas Aquinas, Peter Ramus, Erasmus, Ramon Llull, and Vives. They reframed plausible 'proof', the objective of classical rhetorical persuasion, in terms of religious conversion rather than legal judgment. Such religious rhetoric was the specific target of the Enlightenment which eventually emasculated it as its three parts, *logos*, *ethos* and *pathos*, were reduced to one, *logos*. Henceforth reason ruled uncontested. But today we are moving into a post-Enlightenment Age of post-modernist confusion, plurality or whatever. Ironically we call it the Information Age even though every fragment of human knowledge, scientific or otherwise, is now actively contested, whether by Existentialists, critical realists, or critical management studies writers.

The question is 'What stood behind *logos*, *ethos* and *pathos* that allowed them to be drawn together into coherent action, be that legal or political?' The most viable answer seems to be a kind of secular 'faith'. While Leff proposed a culturally embedded sense of rhetorical 'decorum'¹⁹, I shall call this sense of coming together *pistos* and, with luck, avoid much of the religious baggage attached to the term faith. *Pistos* is what stands in the Wittgensteinian 'void' before and beyond language; it is the un-speakable and un-definable recognition of human community that enables us to engage in meaningful discourse. Business people sense this organizational pre-requisite shared-ness and sometimes speak of 'getting with the program' or, borrowing from Star Wars, 'The Force'. It is

¹⁸ McGee, M. C. (1999). Text, Context, and the Fragmentation of Contemporary Culture. In J. L. Lucaites, C. M. Condit & S. Caudill (Eds.), *Contemporary Rhetorical Theory: A Reader* (pp. 65-78). New York: Guilford Press.

¹⁹ Leff, M. (1999). The Habitation of Rhetoric. In J. L. Lucaites, C. M. Condit & S. Caudill (Eds.), *Contemporary Rhetorical Theory: A Reader* (pp. 52-64). New York: Guilford Press.

likewise the crux of the difference between rhetoric and ‘communication’ as we theorize it within a positivist epistemology. There is plenty of language philosophy that we can draw on to flesh out this point; but irrespective, if we are to draw it into a theory of organizations and their leadership we need a mechanism for the achievement of the organizational *pistos* or culture wherein lies the nub of the organization’s seeming identity. Where can this *pistos* begin?

This is really quite simple and familiar. It is about leadership itself as innovation or agency, about the making of something new that stands over Simon’s three modes of leadership; it is what gives them their *raison d’être*. But to treat what drives this innovation as ‘traitism’ is to miss the epistemological differences between psychologically conceived qualities of mind and situated agentic acts. The beginning of an organization is not only the business idea that forms in the imagination of the entrepreneur, it is also that person’s ability to bring the idea into a world co-created with others as purposive practice. This ability to act inspirationally, a matter of practice in the world, rather than to just imagine was pivotal to Jean-Baptiste Say’s theory of entrepreneurship and is really what we mean by secular or economic charisma. To understand its agentic consequences we must do more than observe entrepreneurs’ practice and attribute them with an inexpressible charismatic trait. We must look behind the seeming magic and find the hard preparatory work on the contextual and specific constraints that confront their agency as they bring their ideas into the world. Behind too stands the sense of appropriateness that renders the practice, when seeming suited to the situation, a source of inspiration for others that surpasses beyond anything that can be achieved by language alone. In short, the practice must work for those engaged in it and thereby seem authentic.

But what is theory of leadership that emerges from this way of thinking about agency and its direction by manipulating constraints and inspiring *pistos*? First, that the theory must have multiple parts, each focused on the different and dimensionally distinct opportunities for leadership, i.e. the uncertainties of the situation within which the organization is being formed. We have the strategic, managerial, and individual modes suggested by Simon, plus the entrepreneurial *pistos* they must ‘own’ or inhabit if they are to generate coherent practice. But the most puzzling questions reflect Coase’s thought, not only about why organizations come into being, but also why individuals in a democratic society might volunteer to join and submit to indoctrination. I have not touched on all the issues here but I believe we can see a dimension of leadership lying behind the triple of rhetorical practices that shape the employees’ reason and agency. Ultimately the sense of organizational coherence derives from a charismatic entrepreneurial event which, like the Big Bang, is only evident in its organizational echoes, but whose echoes nonetheless provide the ongoing sense of organizational identity evident in the coherent system of practice so central to Barnard’s model. This is not merely

a coherence of thought, for the thoughts are merely reflections of the various modes of discourse revealed by rhetoric theory. For there to be coherence as practice the plurality must be resolved by the *pistos* that standing behind them makes them seem authentic, legitimate and appropriate even though that notion cannot be expressed in language and must be experienced. My conclusion, then, is that organizations grow from the seeds of charismatic events, absent which all the rhetoric in the world gets managers nowhere.

Two final comments. *Pistos* points to a 'secular faith' that enables organization to come into being as coherent practice, the result from a charismatic event. Religious organizations depend on it just as much as non-religious ones. I mention this because a cursory examination of the history of the Jesuit movement suggests they more or less invented the modern organization and its modes of cognitive and behavioral indoctrination²⁰. While Tolman was insightful, Ignatius Loyola was evidently an executive genius after whom European organizations were forever an order of magnitude more powerful and focused on their goals, be they religious or secular. I wonder if Simon, with his broad-ranging interest in almost everything, ever examined the Jesuit movement. Loyola focused explicitly on capturing and shaping the imagination of his movement's members and, to that end, invented what we would now call the corporate 'retreat' or indoctrination event. He also invented what came to be called the Constitutions, a managerial manual on the appropriate training and decorum for Jesuits which clearly foreshadowed the military and corporate training manuals of today. Loyola also invented a spiritual training program called The Spiritual Exercises or Calisthenics for the Soul. Every HR professional should read these manuals, and they might give them considerable pause. I am suggesting that though they were oriented towards religious objectives, ironically, Loyola's administrative and leadership manuals were also germane to changing European opinion about how to create and manage all forms of organization. Indeed I suspect this push into modernist modes of indoctrination was as essential to the Industrial Revolutions of Europe as any technological breakthrough like the Spinning Jenny or the steam engine.

This brings us full circle, both to the recognition that our leadership literature must be about more than harnessing the reasoning of employees. The traitist literature, like the transformational and other theorizing mentioned at the start of this essay, focuses only on the qualities of leaders without considering the characteristics of those led. This is where rhetoric theory is so useful, for as Aristotle is the first to remind us, the rhetor must begin with an understanding of the desires and character of

²⁰ Barthel, M. (1984). *The Jesuits: History and Legend of the Society of Jesus* (M. Howson, Trans.). New York: William Morrow & Co.

the audience as one of the dimensions of constraint to her/his agentic space. Only with both leader and led present in the analysis can we seek a language or framework in which to treat docility and indoctrination, without which, as Simon told us, organizations cannot come into existence. As we consider the relationship between leaders and led, it is clear that the notion of 'agency harnessed' needs to be balanced by notions of resistance and opposition by those being harnessed. In this sense, even when indoctrinated, the nature of human beings is that some part of themselves stands outside the organizationally given identity, observing, judging and, perhaps, resisting. Notions of inalienable moral responsibility lie here. But in more practical managerial terms, indoctrination needs to be seen as inevitably negotiated between active agents rather than as a leader operating on passively plastic others. Indeed perhaps the subtlest form of our agency is that which, standing on those being harnessed, reshapes the agency of the leader.

I have taken Simon's three levels of leadership and added two features I believe help us to see how they might be brought into a situation as coherent goal-oriented practice – (a) rhetoric - as the means of shaping the agency of others, and (b) *pistos* - as an overarching organizing principle. While I have used the term 'coherent' often I would not want to over stress it. On the contrary the cognitions that lie behind practice can never be rationally coherent save under conditions of total certainty. Practice is coherent in quite different ways, through its immediacy, its lack of extent. What is is, and is coherent in the sense it is not otherwise. But any statements or analyses about an event, necessarily distanced from the instantaneous present-ness of action, are open to debate and misinterpretation. Indeed rhetors in court (lawyers) often point advantageously to disagreements among witnesses about 'what actually occurred', capitalising on our inappropriate belief that there is a state-able truth about the matter. Thus the deep uncertainty of the relationship between language and practice provides the basic challenge to managers as well as being the basic opening within which their agency flourishes.

This circle takes us back to Isocrates, perhaps the most seminal of the classical rhetoricians. Around 400 BCE he argued our individual ability to persuade others is our demarcating characteristic. Anticipating by two millennia the Enlightenment notions of judgment – and Simon's notion of bounded rationality – Isocrates argued language was the principal tool at our disposal as we engaged the practical challenges of purposive action under uncertainty, when certain knowledge was not to be had. Here we move away from a model of the individual as an interplay of human imagination and reason and towards a rhetorical model – but the outcome is persuasion into what? Isocrates knew - into the human propensity for combination, not simply the propensity to truck and barter which Adam Smith noted. From our tendency to associate, as De Toqueville noted, emerged our systems

of laws, military power, cities, the arts, and in the Modernist Age, those organizations that stand between what we dream of and what we eventually manage to bring into the world as the pro-active agents the Enlightenment philosophers presumed us to be. In short, what we call Civilization. This is our ultimate macro-organization and it cannot become in the world without rhetorical leadership grounded in charismatic events – and in this respect our students are absolutely right on the money in suspecting leadership is the origin of everything we humans desire.