The Question of Organizational Consciousness: Can Organizations Have Values, Virtues and Visions?[1]

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ABSTRACT. It is common for organizational theorists as well as business practitioners to speak of an organization's visions, strategies, goals and responsibilities. This implies that collectivities have competencies normally attributed to individuals, i.e. to reflect, evaluate, learn and make considered choices. The article provides a series of reflections on the concept of consciousness in an organizational context. It is argued that, under certain conditions, it is both meaningful and efficacious to ascribe the competency for conscious and intentional behavior to organizations. The arguments provided are based on empirical observations, common sense and deductive reasoning.

1. Introduction

There is an apparent inconsistency in the way we tend to refer to the competencies and capacities of collectivities of purposeful individuals, what I will refer to in the sequel as *organizations*. On the one hand, within the field of management parlance, it is common to speak of an organization's visions, strategies, goals and responsibilities. These are everyday phrases employed by both organizational theorists and business practitioners. On the other hand, it is also common to attribute competencies for reflection, evaluation, learning and considered choice solely to individuals. We tend to say that these are distinguishing characteristics of human beings as opposed to other life forms. This suggests that the attributing to organizations of competencies ordinarily associated with consciousness is metaphorical rather than literal in nature.

A relevant example of this ambiguous usage of 'consciousness'[2] is to be found in the literature dealing with the field of business ethics. On the one hand, the propensity to behave in accord with one's conscience and accepted moral codes is typically attributed to individuals. On the other hand, the field of business ethics employs concepts such as organizational (shared) values, codes of ethics and corporate social responsibility.

This terminological conflict or lack of clarity is evident if we refer in particular to what may be called a prototypical American approach to the teaching and practice of business ethics. The pedagogy employed in teaching business ethics in most Anglo-Saxon business schools is designed to motivate the individual to be aware of and capable of dealing with conflicts of interest arising from the desire to promote economic efficiency while behaving in, what the *individual* experiences to be, an ethically acceptable manner. This is in contrast to a more European

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approach, which tends to emphasize questions of justification and *intersubjective* agreement.[3]

The individual-oriented teaching method is typically to confront the student with a series of case studies which place her/him in contexts characterized by a leader having to make choices when facing moral dilemmas (typically where economic rationality is challenged by ethical considerations). The underlying idea is, that by confronting the student with a series of virtual dilemmas, her/his ability to cope with such moral dilemmas in future "real-world" situations will be improved. The emphasis is on *decisionism* – on the evaluations and decisions made by an individual leader, even though these of course may be strongly affected by the corporate (or even national) culture.

From this perspective, it might be argued that all talk of organizational values and ethics is metaphorical (perhaps even euphemistical); although the management of an enterprise may refer to the corporation's values, virtues and visions, what they really refer to are their own emotive and evaluative bases. Using a combination of carrots and sticks, employees are cajoled and convinced that these constitute a legitimate basis for the establishment of behavioral norms. Similarly, public relations activities are designed to project to other stakeholders, including consumers, activists, regulators and the public at large, that these values, virtues and visions are indigenous to the company, that they are part of its culture.

Briefly speaking, the implicit logic, which underlies such an approach to the concept of consciousness, appears to be as follows:

1. It is individuals alone who have capabilities for reasoning, forming values and making informed decisions.
2. It is via the application of just these capabilities that members of an organization accept that its leaders have the right to define the "organization's" values, visions, etc. The argument is that although as an individual employee I have my own perceptions, evaluations, motivations, I accept that others are vested with the authority to make decisions on behalf of the organization as a whole and that it is a condition for my relationship with the organization that I support (or at least do not act in opposition to) the "company values". This is fundamental to virtually all notions of bureaucracy, hierarchy and control.
3. Furthermore, not only do the employees accept that "our company" has an identity based on these values, but other major stakeholders may also choose to observe the company using an optic based on these values. Consumers may choose to take the values into account when making purchasing decisions, financial institutions may use these values as important criteria when making decisions as to providing lines of credit etc.
4. Therefore, it may be argued, one can speak of such concepts as corporate values, virtues and visions without this being in conflict with an underlying assumption that only individuals have consciousness. The values etc., although referred to as "corporate", are *accepted* rather than *shared*; they are labels which are communicated to employees and other stakeholders via a top-down process rather than the result of a participative process based on stakeholder dialogue.

The paper provides a series of reflections on the relevance and efficacy of an alternative perspective on terminology and reality. It will be argued that, if certain conditions are fulfilled, it is both meaningful and efficacious to ascribe the competency for conscious and intentional behavior, including formulating and expressing values and visions, to collectivities of individuals, to organizations. In addition the arguments will not only be hypothetical but also normative; it will be argued that not only *can* organizations acquire the ability for existential reflection and for self-assessment, but in addition the leaders of such collectivities *should* behave so as to promote the development of these competencies, i.e. of what we refer to as *organizational consciousness*. We note, however, that the concept of organizational consciousness to be presented has a more restricted meaning than that we often attribute to human beings. While individuals experience feelings such as pride, joy, guilt and pain in connection with their actions, we do not intend here to ascribe such emotive capabilities to organizations.

The paper is structured as follows:

A. To set the scene, I will briefly present anecdotal and logical arguments for why, in the context of enterprises in developed countries, it is important to even consider such matters at all.
B. Theoretical reasoning, backed by empirical observation, will argue that collectivities *can* and *should* develop these capabilities for existential self-reflection and considered choice.
C. Finally, information will be provided which will demonstrate the practical relevance of these thoughts to mainstream business thinking. In particular, the concept of *social and ethical accountability* will be introduced.

Before commencing, a reservation is called for. When developing the exposition, it will not be possible to avoid employing just those terms whose meaning are being investigated and defined. For example, in the case below, reference will be made to the managers' views on their enterprise's values before discussing whether it is relevant to attribute a competency for value formation to an organization.

2. Why is it important to reflect on the competencies of organizations to develop consciousness?

The following story deals with the creation of a "multinational monster". In the early 1990's I was contacted by a large, European-based multinational manufacturing company (with no activities in my own country, Denmark) and asked to develop a seminar for 49 leaders of the company from eight western countries. The CEO had heard about the research going on at the Copenhagen Business School on values-based leadership and *Ethical Accounting* in cooperation with a major Danish bank. The seminar was held at a lovely inn north of Copenhagen. It started out with lectures, which led up to a group exercise. Each of the participants was given a list with roughly 50 "values" including such terms as success, love, honesty, trust, excitement, generosity, respect, wealth, creativity, freedom, power, professional competency, reputation, effectiveness, charity, progress, security, compassion, patience, peace, etc. I mentioned that these "values" were simply labels, words for basic cognitive-emotive categories we tend to use to justify our actions.

They were told to take a short walk by themselves in the autumn air and to reflect upon which of these – or any other values they might choose to add on – were most important for them in their daily lives together with family, friends and themselves. Then they were to discuss their views on these personal values with their colleagues. Seven groups were formed, each with seven participants. If possible, the members of each group should agree as to which are the five (anywhere from three to seven) most important values in one's personal life and write these down on flip-over paper. An hour was provided for these deliberations and discussions. Then, in a plenary session, each group was to present the personal values it had selected and to discuss their interpretation of these values, the process they went through in arriving at just these values, etc. etc.

I must admit that I was a bit nervous as to the outcome. This was the first time that I had employed such a procedure.[4] Furthermore, the company was known for its high degree of hierarchical control and its very strong short-term, shareholder orientation (at the expense of a more inclusive orientation towards broader constituencies). However, the exercise appeared to generate considerable energy and enthusiasm. It turned out that this was the first time that it was legitimate for the managers, most of whom had been recruited internally, to discuss such matters as personal values; this simply was not done and certainly not while at work!

In the afternoon, after another lecture and a "happening" by an activist group which demonstrated against the company's high levels of pollution, the exercise was repeated. The only change was that this time, instead of focusing on the individual manager's personal values, the subject was the "company's values". Not those values which were espoused in glittering brochures describing the company and its products, but those values which could be said to implicitly underlie decisions made as to such matters as hiring, evaluating and firing employees, investing in new plant and equipment, entering/leaving markets, negotiating with unions, advertising, lobbying etc. Otherwise the procedure was identical with the morning's exercise. The participants were to take a walk and reflect on the values which appeared to describe or underlie the company's actions, join their group and try and reach agreement as to the most important values which, using inductive reasoning, could be said to characterize the company's actions, write these on flip-over paper, hang the paper right next to the paper with the group's list of personal values from the morning session, and tell the other groups as to how and why those particular values were arrived at.

The result was most provocative for all present. On a large wall hung seven pairs of flip-over papers; for each of the seven groups there was one sheet of paper with the most important personal values and one sheet with the most important corporate values. It was obvious to all that there was absolutely no correspondence between these two sets of values for any of the groups. For each of the groups not only were all the words different; they simply had what one might call strongly varying "flavors". While the personal values tended to include labels such as "good health", "honesty", "love", "satisfaction/happiness", beauty and "peace of mind", the list of organizational values tended to included terms such as "success", "efficiency", "power", "competitiveness" and "productivity". This led to a series of nervous discussions. Tension was in the air. I challenged them and said that if such listings had resulted from the workers it would be quite understandable. The workers could argue that it was natural that there was a large gap between their personal values and those of the company. No one listened to them or was interested in what was important for them. But in the case on hand, the "workers" were the top management.

After an embarrassing period of silence, the CEO held a brief talk in which he announced that he would consider resigning. He said that it dawned upon him that he was active in the construction of a monster, a corporate Frankenstein.

He did not resign! But the rest of the program was modified so as to allow discussions on such matters as: "Is it important that there is a high degree of harmony between the personal values of the employees (including the management) and the values of the organization as a whole?" "Should a company attempt to develop a code of corporate values – and if so, how – and how should it be interpreted and communicated?" "Should it be a 'top-down' expression of management's understanding of what the company should promote – or should it e.g. be based upon a dialogue process involving major stakeholders, in particular the employees – or some combination of these?"

After this experience I developed a metaphorical picture of the modern, strongly shareholder-oriented manager who, before he or she crosses the doorstep leading to the executive office, hangs his fine coat on a hanger and, unknowingly, hangs up his personal values as well. After a long day of managing, deciding, coordinating and controlling, he crosses the doorstep once again, puts on his fine coat and his personal values, and returns home to his beautiful home, his lovely family, to a fine dinner with good vintage wine, to good friends, the faithful Fido, Beethoven, enchanting love-making and beautiful nature. The picture is of a leader who unbeknownst to himself has developed a modern form of schizophrenia, where the gap between his personal values and the values he promotes in his company is so extreme that both his own health and that of the organization is threatened.

That organizational health can be threatened can be deduced from the observation that in the post-modern/information/knowledge/network society, successful enterprises will rely heavily on employees who are dedicated, creative, dynamic, independent, faithful and reliable. Considerable evidence[5] indicates that such employees seek not only traditional benefits such as good wages and opportunities for advancement, but also meaningful work in socially attractive environments in a company they can be proud of and where they feel that there exists a reasonable degree of harmony between their own values and those of the company.

That personal health can be threatened is not widely documented. However, the following story illustrates the dangers of this new type of schizophrenia. A former friend of mine was for many years the director of personnel at SAS (Scandinavian Airline Systems). Over these many years he had developed a database containing demographic statistics on the lives of a number of Scandinavian leaders in business and the public domain. One of the interesting, but highly depressing, statistics was that when a Scandinavian top manager leaves his or her job for any reason (death, sickness, gets fired, retirement etc.) the expected period of time that he/she has to live is on the order of one year! My friend lived pretty much up to his own statistics and died at the age of 63 after forced retirement at the age of 61. The hypothesis here is that business leaders find it stressing and difficult to live in a world of personal values when so much of their time and energy has been devoted to promoting values dealing with economic efficiency, growth, power, reputation, prestige. They have been used to expressing their values primarily through their work – and when that goes, their main outlet for personal identity and expression goes as well.

It is common for people to speak about wanting to have a long life characterized by a high quality of life. Such figures of speech can be extended to the corporate level. It is postulated that the leaders of most companies would want their company to be characterized by a long and good life. If this is the case, evidence exists that just as it appears to be important for individuals to pay attention to existential questions, it is also vital for companies to pay attention to corporate existential matters such as: "Who are 'we'?" "What do we stand for?" "What are our core values?" "How should we reflect upon our identity and responsibilities?" "How should we measure, evaluate and report on our identity, development and success?"

The authors of the book *Built to Last: Successful Habits of Visionary Companies*[6] researched a set of exceptional (American-based) companies that stood the test of time, the average founding date being 1897. They studied these companies over their entire histories and compared them to a set of companies that had similar characteristics but did not attain the same stature as the truly visionary companies. They referred to the companies as visionary and exceptional rather than successful or enduring because they distinguished themselves as a very elite brand of institutions – they are characterized by being more than successful and more than enduring. According to the authors, in most cases they are known as the best in their industries and have been so for decades. Many have served as role models for the practice of management. As regards this paper, a fundamental conclusion of the study of the visionary companies was that they articulated a *core ideology*, defined by the authors as consisting of *core values* and *purposes*.

By "core values" the authors referred to "the organization's essential and enduring tenets – a small set of general guiding principles; not to be confused with specific cultural or operating practices: not to be compromised for financial gain or short term expediency." And by "purpose" they referred to "the organization's fundamental reasons for existence beyond just making money – a perpetual guiding star on the horizon: not to be confused with specific goals or business strategies."

What is important for our purposes is not which specific values and purposes characterized the individual companies, but rather the fact that the authors of this widely cited book speak so strongly of the corporate core values, which attain their importance by becoming *shared* values, and the corporate purposes. These values and purposes are described in such a way that they appear to have "objective" character. They exist, can be identified, classified etc. They are stable over long periods of time[7] and do not depend on the presence of a charismatic leader; in fact, according to the authors, many of these companies have had leaders who are far less dominating public figures than the leaders of the (good, well known, but not nearly as extraordinary) companies that the visionary companies were compared to.

What is equally important for our purposes is the fact that the companies they are compared to are characterized by the relative absence of such enduring core/shared values and purposes. It is thus implicitly argued throughout that corporations have the capability to develop competencies normally associated with consciousness – such as developing core values and purposes. And it is explicitly argued that "the visionary companies don't merely declare an ideology; they also take steps to make the ideology pervasive throughout the organization and transcend any individual leader."[8]

A tentative conclusion is that organizations appear to have the potential competency for developing qualities normally associated with consciousness such as being reflective, purposeful and values-oriented. In addition, evidence indicates that such competency and qualities can play an important role in determining organizational viability and success. Therefore, there exist good, practical reasons for seeking to establish a theoretical framework for dealing with such notions as company goals, shared values, and what a former leader (Values Coordinator) at the World Bank, Richard Barrett refers to as the "corporate soul".[9]

3. Theoretical arguments: Under what circumstances is it reasonable to ascribe to an organization the competency to develop shared values, virtues and visions – to develop corporate "consciousness"?

The presentation so far has argued that there may be good business reasons for the leaders of an organization to attempt to promote the development of sound "corporate values". The stage is now set for considering the theoretical question as to when it is meaningful to ascribe to organizations the competency and the capacity to develop qualities that we use to characterize "consciousness". Included are the ability to reflect on such existential matters as corporate identity (who are "we"?), visions (what are our fundamental reasons for existing, our ideals?) and values (what are the standards we will employ to measure, evaluate and report on how well we live up to our ideals?). In other words, we will consider the question: Under what circumstances can a collectivity develop a self-referential capacity for integrating cognitive expressions of purpose and ideals into its vocabulary and identity?

It is unreasonable to expect that all the persons in a collectivity have the same values. Nevertheless it has become common to speak of "shared values". This terminology has intuitive appeal but is seldom made precise in the literature on organizational development and management philosophy. In a small, well-localized group, where the members know each other and have frequent contact, these are the values or standards that the group and its members agree (implicitly or explicitly) to use to evaluate whether the group's actions are acceptable. The individual members of the group – be they a local chapter of Hell's Angels or the Boy/Girl Scouts, or a gardening club, develop and employ such shared standards for behavior when functioning as a group.[10] Often these values are not only confined to the group's activities, but flow over and become more or less integrated in the members' individual identities. This is certainly the case with members of Hells Angels[11] – and is a fundamental aspiration underlying the Scout movement.

When we move from the context of a small, local group to that of a larger collectivity of individuals, what we refer to here as an "organization", shared values are the criteria and standards that the organization and its stakeholders agree to use to reflect on the organization's identity, to evaluate whether the organization's actions are acceptable and to guide its development.

That it is legitimate here to speak of shared values without referring to some aggregation of personal values has to do with the social nature and propensities of human beings. It is a common experience that when individuals, each with their own values, preferences and expectations, meet to decide on matters of importance to an organization they belong to and for which they feel a sense of responsibility, a new, implicit – and shared – value can develop amongst the participants. This shared value which emerges in the group is to serve the organization – to reinforce both its identity and the sense of responsibility they have with respect to the organization as a whole – and to arrive at decisions which are acceptable for all the participants.

There is no guarantee that this will happen. It is by no means certain that e.g. representatives from the sales and production departments of an enterprise who are meeting to coordinate plans, will be prepared to move their focus from their own department's – and their own personal – interests, and develop a more inclusive or holistic frame of reference for their decisions. A minimal condition for it to happen is the existence of a reasonable degree of mutual respect and shared perceptions and feelings as to organizational identity. These are a pre-condition for the development of a consensus-seeking dialogue where the participants are able to relate to what they jointly are willing to consider to be shared and efficacious.

3.1. *On the relationship between "stakeholders" and "the organization"*

Up until now the term "organization" has been used in an intuitive sense corresponding to its usage in daily language as well as in almost all literature on "organizational theory", "organizational development" and the like. In ordinary language we tend to refer to an organization as a group of people who, for any of a wide variety of reasons, choose to adhere to a set of norms, rules, goals and visions which they identify with a shared symbol, the organization's name. There are many types of organizations; companies, clubs, institutions, local governments and associations are all "organizations". It is not a prerequisite for membership of an organization that its members know or support the organization's goals; it is not necessary that an employee of IBM work there to promote IBM's purposes and success. In fact s/he may consider her job primarily as a means of earning a livelihood or of maintaining social relationships, and may feel a very limited identity and solidarity with the organization. But at a minimum she must obey its rules and regulations if she is not to risk losing her job. And hopefully, both for her own sake and for the sake of the company, in her work and social intercourse with others at her place of work, she identifies with and supports the development and well being of IBM.

In general people do not ask the question: "what is an organization?" It is common e.g. for students at a business school as well as for their role models, successful top managers, to speak of a company's goals, visions and values without reflecting over what they really mean by "the company" and under which conditions it is meaningful to ascribe to it the capacity to develop and integrate collectively recognized cognitive qualities. It has become part of their language and culture and does not require further justification. Almost all textbooks on managerial economics implicitly equate 'the corporation's purposes, values and goals' with top management's purposes, values and goals – and implicitly or explicitly assume that a fundamental basis for these is an overall and overriding aspiration; to maximize the earnings of its owners (corporation's own nothing according to accounting theory).

However, it is argued here that if managers are to be able to preserve their personal integrity while dealing with the complexity characterizing modern technology, markets, regulations, production forms and cultures, it will be necessary for them to radically reconsider their conceptions of an organization and its competencies. For example, it is postulated that successful and viable enterprises no longer will be regarded primarily from the perspective of the owners or a small group of top managers. The shareholder orientation, which has dominated almost all literature on management, business administration, accounting and finance, is slowly but surely being supplemented by a stakeholder orientation.[12] Not because traditional economic criteria are irrelevant. But because the one-dimensional mapping of corporate effectiveness via profitability can lead to ineffectiveness seen from the perspective of its many constituencies, including the shareholders, and therefore as well from the perspective of the enterprise's long term viability, economic efficacy and "quality of life".

This is not only relevant for commercial, private enterprises, but applies as well for institutions, companies, communities and other forms of organizations within the public domain. Even though such not-for-profit organizations may lack a simple measure of economic success as is provided by the bottom line, their managers still tend to be dominated by economic rationality and steering via budgets and bureaucracies – and not by a stakeholder orientation. Without being able to reflect on and report on their success via a profit and loss statement, such organizations have an even greater need for the identity and legitimacy which can be created by a more holistic, inclusive orientation towards the many stakeholders. In other words, an organization must contribute to all its stakeholder values if its own values are to be promoted.

From a systems theoretical vantagepoint an *organization* can be considered to be a purposeful system with the following characteristics:

a) It selects the stakeholder groups it considers itself as interacting with, and
b) Its stakeholder groups chose, each based on its own shared values, to participate in an on-going existential discourse with the organization which reflects on and constitutes the organization's *identity* and its *shared values*.

In other words, an organization is here considered to be a social system with the self-referential ability to describe itself and reflect upon itself on the basis of its shared values.

An organization's values are not just an aggregation of each stakeholder group's values, even though it is a condition for organizational success that the organization's values respect and reflect its stakeholders' values. The organization's shared values are those values which emerge from the organization's on-going self-reflexive constitutive dialogue as to its identity, purpose and relationships to its stakeholders. In other words, these are not just any values, but those values which can take on a socially integrative function and can be employed to justify the establishment of organizational goals.

It would be detrimental for organizational effectiveness if its management had to refer to the values of its stakeholders whenever it had to make decisions. An organization's experience and traditions are valuable because they permit management – and the employees – to act without directly reflecting on or referring to the organization's values.[13]

Stakeholders are those parties who affect and/or are affected by an organization's behavior. They have a stake in the organization. It is common to refer for example to a company's employees, customers, owners, suppliers, competitors, local communities and financiers as major stakeholders. In most cases, these both affect and are affected by the organization. Other stakeholders might include the media, activist organizations, branch associations and the government. Typically such stakeholders affect but are relatively unaffected by the organization. In the case of a public organization such as a public hospital, the stakeholders could be the doctors, nurses, porters, administrative personnel, patients, their families, the politicians providing the funding etc.

From a systems theoretical perspective a stakeholder can be considered to be a group or subsystem which:

a) Is selected[14] by and interacts with the organization, and
b) Whose members, based on their own personal values, choose to participate in an existential discourse within the group and with the organization, which reflects on and constitutes the stakeholder group and the *stakeholder group's shared values*.

The stakeholder group's shared values are not just an aggregation of the individual members' values, even though these underlie the group's values. The group's shared values are those socially integrative values which emerge from a values-based dialogue within the stakeholder group – a reflexive discourse based on the group's mapping of itself and its environment.

For example, the employees in an organization can create a stakeholder group, the "employees" if: a) the leadership of the organization chooses to consider the "employees" as a special level of reality, it can relate to, and b) the individual workers choose to identify themselves as members of the "employees" based upon the values they share with each other and with the organization.

To avoid terminological confusion due to using "employee" to refer to both a stakeholder group and an individual in the employment of a firm, I will now refer to the latter as a "worker", although this tends to be associated with terms like laborer.[15] An individual worker may have many values which are not "employee values". And if worker Smith leaves the firm and is replaced by worker Jones, it makes no sense to speak of a new stakeholder with a new set of values. The group is constituted based on its shared values and its self-reference. It would destroy its effectiveness, its ability to promote its shared values, if it had to appeal to all its members private values each time it had to relate to itself. And it would be destructive for its effectiveness if it had to relate to its shared values whenever it had to relate to the organization. As was the case with the organization, the stakeholder group's experience and traditions are valuable because they permit coordinated action without directly relating to its values and without formalizing the discourse.

3.2. *The role of management*

The perspective presented above on the relationship between values, stakeholders and organizations has so far avoided introducing some of the complexities which arise when considering a rather particular kind of employee, the manager or leader.

Most of the literature on a stakeholder perspective on the firm side-steps the question as to whether management should be considered to be a stakeholder in its own right, i.e. which is distinct from the stakeholder group "employees". This is a tricky question, particularly if we by "management" refer to "top management" since this group has special competencies, amongst these being the choice of which stakeholders the organization chooses to relate to!

Furthermore, since top management can act and communicate on the behalf of the organization as a whole, it is confusing to speak of management's values vis-à-vis the organization's values – and to say that management's values are at odds with the organization's values would be tantamount to criticizing it for a lack of responsibility. Management has the responsibility for creating and maintaining the self-referential dialogue process which can elicit and coordinate the various stakeholder groups' values and thereby for (re)creating and coordinating the organization's shared values. In turn, via their concrete actions and their formulation of the organization's visions, strategies and goals, management affects the formation of the stakeholders' values. Finally, experience with *Ethical Accounting* indicates that managers have perceptions and values that tend to differ significantly from non-managerial employees.

For all of these reasons, it is difficult to justify categorizing (top) management as either a stakeholder in its own right or as a member of the stakeholder group "employees".

In fact, it is a challenging question whether "management" performs its functions from a platform within or outside of the organization. It can be argued that the vantagepoint of management of necessity is external to the organization; this permits it to observe and to steer the organization as a whole. And from an employee perspective, management is often less a "we" and more a "they". The power relationship between these groups is non-symmetric and can be characterized as a relationship between decision makers and decision receivers, between planners and the planned-for.

On the other hand, management's observations are observed by the employees and management can only effectively act in a close symbiosis with the employees and the organization's other stakeholders. Furthermore, managers clearly are employed by the judicial entity, the company, and are in many ways "in the same boat" as the regular employees and they live up to the common definition of a stakeholder since they "affect and/or are affected by" the organization.

Without attempting to resolve the problems associated with the special nature of management in a values-based and stakeholder perspective on the organization, I will consider one of management's major distinguishing characteristics and responsibilities as seen from such a perspective on organizational consciousness. Until now I have argued that organizations have the potential competency to develop values via an on-going, self-reflective dialogue process and that if this competency is realized, the shared values which emerge from this process can be said to be an expression of a collective consciousness. Management clearly plays a vital role in this process since it has not only the *legal* capacity to make binding decisions, but also has the potential competency to make *legitimate* decisions by acting on behalf of the organization as a whole. The question arises however as to what is required for this potential competency to be realized.

Briefly, the perspective provided here is that management has the responsibility for promoting the values of all the organization's stakeholders.[16] That is, management has a *social responsibility* that extends beyond maximizing the profits accruing to the owners. Management is no longer to be seen as being responsible only to one stakeholder, the shareholders, and it is no longer legitimate to reflect upon organizational success based on one criterion alone, profitability.

Management has in other words a responsibility for serving all the organization's stakeholders and it must relate to and promote the values of all the stakeholder groups in their interplay with the organization. This leads to a more complex – and far more realistic – perspective on management and decision making than that provided by classical economic rationality. If concepts of organizational values, visions and virtues are to be more than just metaphors, management must develop and utilize a multi-stakeholder, multi-criteria concept of the enterprise. It must reflect on, measure, evaluate and communicate corporate identity and success via the employment of an expanded repertoire of explanations. This in turn presupposes the existence of a dialogue culture, which maintains and develops the organization via a self-reflective communication process with the stakeholder groups, each with its own shared values.[17] We turn now to one such approach to developing operational tools for dealing with notions of organizational consciousness and values.

4. Operational arguments: Social and ethical accounting

The various distinctions employed so far are closely interrelated. If they are to be integrated into an organization's structure, procedures and systems, it is necessary to develop a vocabulary and tools that can support the development of the organization's self-referential capabilities. It is argued that in order to operationalize concepts of shared values, organizational consciousness and corporate responsibility, there is a need for a reappraisal of what we mean by *accountability* and *accounting*.

At present the notion of accountability is formally delineated only with respect to a corporation's legal compliance and its financial reporting to shareholders and governmental authorities – and of late to a limited degree in connection with environmental reporting. While both financial and even environmental performance are increasingly "auditable", many aspects of social impact remain uncounted, many claims regarding ethical performance remain unverified, and many aspects of a company's social and ethical performance are even unverifi*able* due to inadequate information systems.

Verifying claims as to corporate values is not simply a matter of "ethical policing". Rather, it opens up the possibility for constructive dialogue about what types of social responsibility are possible in different situations, and how they can best be achieved, evaluated and communicated. The ability to account for the social and ethical dimensions of an organization's activities may therefore be considered a pre-condition for the development of organizational consciousness and therefore of socially and ethically responsible business.

One such approach to working directly with organizational and stakeholder values is what was originally, in 1989, christened "ethical accounting".[18] Briefly stated, ethical accounting measures how well an organization lives up to its stakeholder values. But it encompasses more than just a snapshot at a particular point of time; its design, development and interpretation contribute to an on-going dialogue culture where values become vital for the organization's re-production of its self-knowledge and identity. Compared to traditional accounting statements, ethical accounting comprises more values, addresses more stakeholders, and is developed, interpreted and employed by all the stakeholders. Therefore it is not objective. Rather, it draws a rich and informative picture of how stakeholders perceive their relationships to the organization and provides the basis for a learning process whereby values become integrated into the organization.

At present it is estimated that roughly one hundred Danish organizations more or less regularly employ ethical accounting as an important tool for contributing to organizational development and to managerial effectiveness. It is interesting to note that the majority of these users are public sector organizations; hospitals, schools, homes for the aged, local communities, city governments and the like. In fact, ethical accounting has been implemented within such rather unique areas as the care of the senile (in the municipalities of Aarhus and Copenhagen, Denmark) and in animal husbandry (in Denmark and Norway).

However, what is perhaps the most interesting development is that which is taking place internationally – with a major influence from Denmark. This development began in 1994 at a meeting of a small group of people from the U.K., Italy, the U.S. and Denmark who were enthusiastic as to the possibility of developing a common framework for various approaches to what is now called the field of social and ethical accounting, auditing and reporting (SEAAR). Unknown to the Danes who had developed ethical accounting, there already existed a recent history of attempts in other parts of the world, particularly in the U.S. and U.K., to develop metrics for measuring an organization's social performance; the approach was, and still is, referred to in most of the Anglo-Saxon world as *social auditing*. And in the mid-1990's other people were developing methodologies similar to ethical accounting and with similar motivations.[19]

However, developing such an accounting process is not without challenges. It is one thing to count and sum up financial flows, but quite another to measure the extent to which an organization promotes the values of its stakeholders. While a consensus on how to measure environmental impacts is slowly developing, views diverge on how to compute the ethical impacts of business activities.[20] This lack of accepted social and ethical accounting standards may, however, now be drawing to a close. The practices of the new generation of social and ethical accounting, auditing, and reporting that has emerged in the last five years are now converging towards a common approach that could form the foundation for global procedural standards in the future.

In recognition of this development, the Institute of Social and Ethical AccountAbility (ISEA), referred to as *AccountAbility*, was established in London in 1996. An underlying motivation was to develop a consensus on standards that can form the basis for securing a recognizable and assessable level of quality in social and ethical accounting, auditing and reporting. According to its mission statement, "AccountAbility is an international professional body committed to strengthening the social responsibility and ethical behavior of the business community and non-profit organizations. The institute will do this by promoting best practice social and ethical accounting, auditing and reporting and the development of standards and accreditation procedures for professionals in the field." The first such standards, AccountAbility 1000 (AA1000) have been available from ISEA as of November, 1999.[21] Recognition of both the growth of the field and its universality has resulted in a number of international meetings and conferences dealing with SEAAR.[22] At present, some of Europe's major corporations including Shell, British Telecom and Novo Nordisk have committed themselves to implementing SEAAR while others are in the preparatory phases.

Widespread agreement about such standards would have radical implications for corporate reporting and behavior more generally. It would bring to the "business" community (including governmental organizations, voluntary and community groups and NGO's) a new era of openness, introducing practices of transparent decision making. This would in turn reflect and reinforce the values, expectations and needs of the stakeholders and the environment with which the organizations coexist. Finally, and central to the theme of this article, it would enshrine in management and accounting practices the principle that businesses are not just judicial entities with certain fiscal responsibilities, but that they, just as individuals, have values and are socially and ethically accountable.

Notes

[1] Originally presented as an invited paper at the *World Philosophers Meet '98 – Second Parliament of Science, Religion and Philosophy*, Geneva, Switzerland, August 1998.

[2] The terms 'conscious' and 'consciousness' will be employed in the sense: "knowing what one is doing and why"; *Webster's Deluxe Unabridged Dictionary*, 2nd edition.

[3] In Europe, although many business schools emulate the American approach with its focus on the individual (potential) leader's reactions to moral dilemmas, there is a tendency to focus on a stakeholder perspective and on the processes leading to and characterizing the development of *shared* conceptions of organizational purpose, values and ethics. Regarding the situation in Denmark, see for example Pruzan, P., "Theory and Practice of Business Ethics in Denmark", in Zsolnai, L. (ed.), *The European Difference: Business Ethics within CEMS (Community of European Management Schools)*, 1998, pp. 1–15. This book presents an overview of teaching and research at a major business school in each of 8 CEMS countries.

[4] Since then the approach, in modified form, has been employed in a large number of private and public enterprises, e.g. in connection with the development of codes of shared values at the corporate, division or local level.

[5] See e.g. the report "Socialundersøgelsen 1997–98" by the Danish Association of Jurists and Economists, 1999. It is based upon interviews with several thousand Danish college students in the last year of their bachelor studies in social science fields such as economics, political science, law, sociology, business administration etc. The report shows that by far the major motivating factor as regards choice of a job is "meaningful work", number two is "the social environment" and much further down the list is "wage level" and "opportunities for leadership responsibility". Similar results are reported on in a survey by the Fuqua School of Business at Duke University. According to this survey amongst MBA students at 10 leading American business schools, "Having a successful marriage or relationship, physical health and strong ethics are the three goals rated most highly by respondents. A successful career slots into fourth place. Making a lot of money is down in 12th position." (See the article Bradshaw, D. "Family Values Replace the Dash for Cash", *Financial Times*, 25.5.1998). Finally, reference is made to (Levering, R. and M. Moskowitz, *The 100 Best Companies to Work for in America*, Doubleday, 1993), where considerable empirical evidence is provided that companies with the best scores with respect to criteria such as job security and job possibilities, pride with respect to one's job and the company, openness and fairness, the social environment, wages and benefits were not only among the most profitable companies in America, they tended to have the lowest job turnover and the happiest employees.

[6] Collins, J. C. and J. I. Porras, *Built to Last: Successful Habits of Visionary Companies*, HarperCollins Publishers, 1994.

[7] Gioia, D., M. Schultz and K. Corley, "Organizational Identity, Image and Adaptive Instability", *Academy of Management Review* 25, 63–81, 2000 consider the relationship between stable values and corporate identity. They argue (pp. 64–65) that "the seeming durability of identity is actually contained in the stability of the *labels* used by organization members to express who or what they believe the organization to be, but that the meaning associated with these labels changes so that identity is actually mutable." Corporate identity with a sense of continuity is thus "one that shifts in its interpretation and meaning while retaining labels for 'core beliefs' and values that extend over time and context."

[8] Note that this attention to 'visionary' and 'pervasiveness' is also closely related to such less attractive concepts as 'indoctrination' and 'cult-like cultures'. The authors argue that "The visionary companies more thoroughly indoctrinate employees into a core ideology than the comparison companies, creating cultures so strong that they are almost cult-like around the ideology. The visionary companies more carefully nurture and select senior management based on fit with a core ideology than the comparison companies. The visionary companies attain more consistent alignment with a core ideology – in such aspects as goals, strategy, tactics, and organization design – than the comparison companies." (*Built to Last*, p. 71).

[9] Barrett, R., *Liberating the Corporate Soul: Work,*

Values and Leadership in the 21st Century, R. Barrett and Associates, 1998.

[10] In many groups and organizations these values are articulated in various forms such as codices. An example is the Boy Scouts' Code of Honor. Note however, that many, if not most, of the values which characterize a group can be said to be tacit values which are readily accessible and have become part of the individual member's cognitive and emotive approach to evaluating and reacting to opportunities. See Petersen, V., *Tacit Ethics – Creation and Change*, Working Paper 98-1, Department of Management and Organization, Aarhus School of Business, Aarhus, Denmark, 1998.

[11] I underscore here that the 'shared values' referred to throughout are shared within a group or organization – and are not necessarily shared by all the parties affected by them. Hells Angels and Phillip Morris (one of the 'visionary' organizations referred to in the book *Built to Last*) have developed highly effective means of legitimizing, reinforcing and supporting the operationalization of their values and purposes, even though these values and purposes are considered to be unethical by many of the parties affected by their decisions and behavior.

[12] The concept of 'stakeholder' was introduced in the management domain in the late 1970's and early 1980's (see for example Ackoff, R. L., *Creating the Corporate Future*, Wiley, 1981 and Freeman, E., *Strategic Management: A Stakeholder Approach*, Pitman, 1984). From a Danish perspective it is interesting to note that this frame of reference has been widely recognized over the last 10–15 years and serves as a fundamental concept underlying the development of *Ethical Accounting*, to be discussed shortly. For a more recent extensive analysis based on considerable first-hand experience, see (Wheeler, D. and M. Sillanpää, *The Stakeholder Corporation: A Blueprint for Maximizing Stakeholder Value*, Pitman, 1997).

[13] It must be underlined that once organizations develop a competency for conscious, intentional behavior there is no guarantee that this competency will lead to the establishment of enduring traditions that "permit management – and the employees – to act without directly reflecting on or referring to the organization's values." Much depends on e.g. whether new leaders embrace the shared values. One example is the Body Shop, which for many years has been internationally recognized for its emphasis on shared values and ethical behavior. A new leadership appears to be resulting in an erosion of the past values through their over-commoditization – and to a resultant decrease in both employee and customer faith. Another case is from my own country, Denmark. In 2000, one of the organizations which has achieved a high degree of recognition for its work with *ethical accounting* since 1989, Sbn Bank (Spar Nord, as it is known here) experienced a major change in top management – accompanied by a major shift from corporate values as constituted and revitalized via processes of stakeholder dialogue, to values established solely by top management.

[14] The notion of 'selection' by the organization, though not consistent with many definitions of stakeholders which neglect this aspect, is vital here in this theoretical perspective on the relationships between organizations and their stakeholders. It indicates that the process of value generation, both within the stakeholder group as well as within the organization, depends on the organization's conscious choice of which groups it will deal with when reflecting on its values and identity, and which groups it will *not* deal with. The importance in a more pragmatic perspective is demonstrated in the difficulties organizations such as Nike and Monsanto faced due to their choice of whom to deal and whom not to deal with as stakeholders.

[15] This discussion indicates the difficulty arising from using a term from every-day language within a theoretical context. To avoid this problem one would have to introduce a new term, e.g. "employee group" and then speak of "employee group values". I have chosen to avoid introducing more new terms than are necessary.

[16] A business expression of this perspective can be found in the publication *Profits and Principles – does there have to be a choice?* Royal Dutch/Shell Group, 1998 and to Shell's *Statement of General Business Principles*, 1997: "Shell companies recognize five areas of responsibility: To shareholders . . . To customers . . . To employees . . . To those with whom they do business . . . To society . . . These five areas of responsibility are seen as inseparable. Therefore it is the duty of management continuously to assess the priorities and discharge its responsibilities as best it can on basis of that assessment."

[17] See e.g. Pruzan, Peter, "From Control to Values-Based Management and Accountability", *Journal of Business Ethics* 17, 1379–1394, 1998

[18] In a Danish article from 1988 my colleague, the philosopher Dr. Ole Thyssen and I proposed the development of Ethical Accounting as a means of operationalizing ethics in an organization. The article, now available in English, ("Conflict and Consensus: Ethics as a Shared Value Horizon for Strategic Planning", *Human Systems Management*, 9, 1990, pp.

135–151) was based on our work with ethics and with decision making contexts characterized by multiple stakeholders having multiple criteria for judging the performance of an enterprise. Our proposal was brought to the attention of the management of Denmark's seventh largest bank, Sbn Bank or "Spar Nord", as it is known in Denmark. The bank is a regional bank primarily serving Northern Jutland with 71 branches in 19 regional areas and with roughly 1,300 employees, 200,000 customers and 60,000 shareholders, most of whom are customers. A year earlier the bank had begun to develop its "Code of Values" based on psychological theories regarding people's basic needs. The top management was keen on developing a perspective on management and organizational development based on the values of its major stakeholders and offered us the opportunity of using the bank as a laboratory for developing ethical accounting. Under the leadership of Dr. Thorbjörn Meyer, the first ethical accounting statement was developed for the year 1989 and since then such supplements to the bank's financial statements have been developed each year. See e.g. Pruzan, P., "The Ethical Dimensions of Banking", in (Zadek, S. P. Pruzan and R. Evans, eds.), *Building Corporate AccountAbility: Emerging Practices in Social and Ethical Accounting, Auditing and Reporting*, Earthscan, London, 1997, pp. 63–84 and Pruzan, P., "The Ethical Accounting Statement" *World Business Academy Perspectives* 9, 1995, 35–46. In addition there are a large number of articles, several doctoral dissertations and three books in Danish on ethical accounting.

[19] For a historical overview as well as a presentation of the motivations and theory underlying SEAAR, reference is made to the major reference in the field: Zadek, S., P. Pruzan and R. Evans, *Building Corporate AccountAbility: Emerging Practices in Social and Ethical Accounting, Auditing and Reporting*, Earthscan, London, 1997. In addition to the historical and theoretical sections it also provides nine case studies of applications in a wide variety of organizations in the U.S., Canada, U.K., Italy, Norway and Denmark. It is primarily for people facing the practical task of handling, developing and implementing corporate social and ethical responsibility agendas although it is also targeted towards corporate stakeholders and an audience of students and researchers.

[20] This is of course not a unique challenge. The profession of judges, of doctors, and maybe at times even of financial accountants, faced equal or similar dilemmas. The best and most recent example, perhaps, is that of environmental assessors and auditors. Here was an area that until the early 1980's was primarily one of challenge and defense, the corporate body generally on the defense, with the challenges made by single-issue and community-based campaigning non-profit organisations. And yet in the space of just a few years the basis of a profession has emerged, complete with courses, accreditation procedures, standards and, increasingly, legislation.

[21] For further information on the institute and on AA1000 contact The secretariat, Institute of Social and Ethical AccountAbility, Thrale House, 44-46 Southwark Street, London SE1 1UN, England; Tel: +44 171 407 7370, Fax: +44 171 407 7388, E-mail: Secretariat@AccountAbility.org.uk, Website: http://www.AccountAbility.org.uk.

[22] A resume of the first International Conference on Social and Ethical Accountability: Balancing Performance, Ethics and Accountability, Nijenrode Castle, Holland is available in the special conference issue (nr. 5) of the quarterly journal of the Institute of Social and Ethical AccountAbility, *AccountAbility*, 5, autumn, 1997 and a series of papers presented at the conference are available in the *Journal of Business Ethics*, 17, 1998. The "1st.North American Conference on Social and Ethical Accounting, Auditing and Reporting: Standards for the New Millennium" took place in Vancouver, B.C., Canada, October 19–21, 1998. The third international conference dealing with SEAAR, "Building Stakeholder Relationships", took place November 15–16, 1999 in Copenhagen, Denmark; the foundation standard AA1000 was presented at this meeting.

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