A Challenge to Traditional Economic Assumptions: Applying the Social Theory of Communicative Action to Governance in the Third Sector

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Abstract
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Keywords
Third sector, Governance, Habermas, Generative thinking, Theory of communicative action, Social paradigm

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A CHALLENGE TO TRADITIONAL ECONOMIC ASSUMPTIONS: APPLYING THE SOCIAL THEORY OF COMMUNICATIVE ACTION TO GOVERNANCE IN THE THIRD SECTOR

INTRODUCTION

Research approaches to governance within the third sector have generally followed similar lines to those found within governance research in the corporate business sector using the same economic based theoretical models (for example: Bradshaw et al 1992; Green and Griesinger 1996; Cornforth and Edwards 1999; Steane and Christie 2001; Brown 2002, 2005). There is very limited evidence of research built upon sociological paradigms associated with the unique characteristics of third sector organisations, with one notable exception being the work of Chait et al (2005).

Conventional governance thinking focuses primarily on productive efficiency and strategic aspects of an organisation using economic instrumental rationality (Zahra and Pearce 1989; Bradshaw et al 1992; Nicholson and Kiel 2004). For businesses with a purpose of profit maximisation this may be particularly legitimate and be the main focus of a director’s work. However, much more is demanded of directors of third sector organisations (TSOs) because of the unique mission focused and value-based characteristics of the organisations they govern. Without undermining the importance of both fiduciary and strategic modes of thinking in respect to governance, Chait et al (2005) suggested that an expansive way of thinking was required which they identified as a ‘generative mode of thinking’ (as shown in Figure 1).

Figure 1: Modes of thinking within Governance as Leadership
(Chait, Ryan and Taylor 2005)

However, they ‘found no model or ‘best practice” of institutionalized generative governance to share’ (Chait et al 2005: 104). Nevertheless, theoretical bases that are aligned with the rationality associated with generative thinking do exist. One such basis is Jugen Habermas’ theory of communicative action (TCA). This theory is considered appropriate to the governance of TSOs, because it focuses on co-ordinated action through understanding, not control or manipulation, and is a theoretical frame embedded within a sociological paradigm, rather than one related to an economic paradigm as is the common case in much governance research.

The first section of this study presents different types of rationality in order to demonstrate that the instrumental rationality upon which economics is based is not the only form of
rationality appropriate to the social sciences. This is followed by a review of sociologically based governance studies and an introduction to the notion of generative thinking. The theory of communicative action and its application to governance of TSOs is then discussed. The final section presents future research directions and summarises the contributions of adopting this approach.

DIFFERENT TYPES OF RATIONALITY

Kemmis and McTaggart (2003: 2003) conceded the ‘ubiquity of the functional reason [i.e. “instrumental” or “technical” reason] characteristic of the social systems that structure great tracts of our social realities’ yet identified two other kinds of reasoning that serve different knowledge-constitutive interests other than the individual-objective interest. These are ‘practical’ reason, and ‘critical’ or ‘emancipatory’ reason (Kemmis and McTaggart 2003: 362). In addition, Aberbach and Christensen (2003: 493) identified ‘political rationality’, and Habermas (1984) contrasted ‘communicative rationality’ with ‘instrumental’ rationality. O'Donnell recognised that

Teleological or goal-oriented action involves a decision based on instrumental, means-end, or purposive rationality in Weber’s sense given a certain interpretation of a situation. A variant is “strategic action” in which the actor takes into account the likely behaviour of other goal-directed actors. Habermas stresses that although the teleological-instrumental structure is fundamental to all forms of action, it is too often taken to be the sole form of rational action in other conceptualizations of rationality, a fact he refers to as one of the ‘illusions of modernity’ (O'Donnell 1999: 253, emphasis added).

Prior to considering communicative rationality in more detail, the pervasiveness of the economic instrumental rationality underlying theories commonly associated with governance research will be briefly considered. One of the ‘illusions of modernity is the common acceptance that governance approaches embedded within an economic paradigm using instrumental rationality is the most beneficial way to think about governance. The core tenant of this economic instrumental paradigm is that ‘actors think and act strategically to fulfil personal goals and are primarily utility-maximizing individuals’ (Aberbach and Christensen 2003: 497). The main players within this common paradigm are shareholders and executive managers, described using economic metaphors as ‘principals’ and ‘agents’. The board’s traditional role is to ensure that the agent’s interests are met and that maximum returns on shareholder investments are achieved while keeping within the law and upholding social norms. Numerous theories have been proposed to enlighten this process. Each theory influences the way the board is structured and functions. Some of these will now be considered briefly.

The most pervasive theory underlying much governance research and practice is agency theory (Berle and Means 1932; Jensen and Meckling 1976; Fama and Jensen 1983; Eisenhardt 1989; Dalton et al 1998; Hendry 2002; Miller 2002; Brown 2005). By believing that managers are utility-maximising-agents, monitoring and control of these agents by the board is seen as of prime importance. In direct contrast, stewardship theory perceives managers in the opposite way, as agents who are not merely self-interested, but who have the good of the organisation at heart (Jeavons 1994; Davis et al 1997; Smallman 1999). Maximising the returns for the shareholders in this situation is achieved by the board ensuring appropriate support of the agents, rather than controlling them. Paradox theory recognises that there is truth in both of these positions and instead of it being an either/or situation,
concludes that both control and support are vital (Demb and Neubauer 1992; Lewis 2000; Sundaramurthy and Lewis 2003; Cornforth 2004). **Resource dependence theory** sees that the role of the board is to help management maximise resource usage that is available from different stakeholders in order to maximise benefit to shareholders (Pfeffer and Salancik 1978; Guthrie and Olian 1991; Alexander and Weiner 1998; Hillman et al 2000; Hillman and Dalziel 2003). **Stakeholder theory** recognises that there are many other people and groups apart from shareholders that are affected by a company (Freeman 1984; Clarkson 1995; Abzug and Webb 1999; La Porta et al 1999; Barrett 2001; Steane 2001; Aguilera and Jackson 2003; Bhase 2004; Balser and McClusky 2005). The board’s role is seen as assisting management care for these additional interests, while at the same time maximising returns for shareholders. Irrespective of which theory is proposed, the common thread is maximising shareholder return on investment - clearly an economic interest.

With respect to governance research of TSOs, while agency theory is also commonly used, there is increasing appeal in theories that are considered to have more relevance to mission driven organisations (Hough et al 2004). As such, stewardship theory is attractive, because it is widely accepted that the majority of executive managers of TSOs are deeply interested in the mission of the organisations they manage and are not just self-serving individuals (Jeavons 1994; Hough et al 2004). Stakeholder theory is also common as TSOs often have a variety of investors and supporters with a range of interests and beneficiaries/clients of the organisation are seen as vital stakeholders (Steane 2001; Balser and McClusky 2005).

There is no question that these theories can assist in helping to guide certain aspects of governance within TSOs. However, the economic-biased, systems-focused, instrumental-means-end rationality associated with these theories remains a major limitation for organisations whose mission is sociologically embedded. There is a lack of appreciation for the fact that ‘human beings are not merely economic beings, but also political, cultural and moral beings’ (Boston et al 1996: 30). There is a need to reconnect with ‘questions of meaning, value, and significance, and of exercising personal and collective agency for the common good’ (Kemmis and McTaggart 2003: 380). Humanitarian development work is complex and far from being instrumentally rational. While logical frameworks are commonly used in humanitarian project design documents, it is frequently found that the social context in which development programs take place has a different kind of rationality and carefully laid plans rarely work out as expected. The tension between the reality of the social context and economic biased organisational systems is very real in the humanitarian aid context. Aberbach and Christensen (2003: 499) identify similar challenges within the domain of state governance. For governance of organisations working in such situations to be effective, a new paradigm of thinking that can provide a better linking of social context and systems is seen as necessary. Because of this, it is considered more appropriate to seek a theory from within a sociological paradigm to assist in understanding governance of TSOs.

**Sociological based governance studies**

The most notable recent study built on a sociological paradigm was the culmination of a three-year research project between BoardSource and the Hauser Centre for Nonprofit Organizations at the John F. Kennedy School of Government at Harvard University (Chait et al 2005). The authors considered that the fundamental problem with governance in TSOs was not poor performance, but lack of clarity of purpose, both in relation to the governing board and within the organisation as a whole. They saw this as being related to a lack of understanding of the complex characteristics of a modern nonprofit organisation which they consider to be innately ‘nonrational and generative’ (Chait et al 2005: 105). In this respect
they asserted that 'organisations are not merely the sum of their productive and logical aspects… [there are also] expressive aspects of organizations, where people are concerned not with productivity or logic alone, but also with values, judgements, and insights' (Chait et al 2005: 30).

Chait et al (2005) suggested that effective practice of generative thinking, along with both fiduciary and strategic thinking by governing directors will provide 'governance as leadership'. They regarded generative thinking as vital to preventing 'raw power contests' or 'shifting coalitions of politics' or the dictates of 'outsiders' (such as donors) being the means of steering an organisation. However, generative thinking processes are also able to help 'facilitate consensus' and release the potential within the sociological dimensions of the organisation (Chait et al 2005: 30).

While no formal definition of generative thinking is provided by Chait and his colleagues, the following excerpts from the same study provide insights into their understanding of its meaning. Generative thinking is considered to lie ‘somewhere between the insights of individuals and the paradigm shifts of fields’ (Chait et al 2005: 80). It precedes ‘mission setting, strategy development and problem solving’ (Chait et al 2005: 80). It is what generates visions, purposes, strategies, hypotheses and ideas. Generative thinking ‘generates the moral commitments that missions codify, the goals that strategies advance and the diagnoses that problem solving addresses’ (Chait et al 2005: 82). It is easy to see what it produces but it is more difficult to identify and understand how it works – yet it can be encouraged, supported and leveraged. Generative thinking is a subjective process that ‘produces a sense of what knowledge, information and data mean’ (Chait et al 2005: 84). This can open up multiple choices from which strategies can be selected. In the processes of problem solving; it identifies questions and provides frameworks to guide problem solving. It 'provides a sense of problems and opportunities’ (Chait et al 2005: 79).

For Chait et al (2005), generative thinking refers to ‘a cognitive process that dozens of theorists in several disciplines have, in whole or part, described by different names … [including] Karl Weick (‘sense-making’); Donald Schon (‘reflective practice’); Henry Mintzberg (‘emergent strategy’); Ronald Heifetz (‘adaptive leadership’); Michael Polanyi (‘personal knowledge’); Robert Birnbaum (‘cognitive complexity’); Lee Bolman and Terrence Deal (‘framing organizations’); and James March and Michael Cohen (‘sensible foolishness’)” (Chait et al 2005: 83).

In his review of an early part of the Chait et al study, Ruegger (2004) claimed that the generative process is easiest to grasp by starting at the end, describing the results of generative thinking, and then looking backwards to see what produces the output. Generative thinking uses cues, clues, frames and retrospective thinking to produce a sense of meaning. In fact, it is the starting point for governing, providing the development of mission setting, strategy development and problem solving. If boards are able to move beyond the routine planning and organising and think together, they could then expand on the essence of a great idea and produce.

The recommendations of Chait et al (2005) are supported by research on open system theory and organisations by Levasseur (2004) who concluded that in order to gain realistic answers to complex questions, proper specified feedback models were necessary. There was found to be a need to go beyond ‘making hard decisions based on financial analysis alone’, and instead
to ‘include (complementary) symbolic and substantive actions’ relative to various organisational stakeholders (Levasseur 2004: 84).

Charan (2005) also supports this perspective and describes boards that add value to a corporation as being ‘progressive’ boards (in contrast to ‘ceremonial’ and ‘liberated’ boards). In his opinion, such boards are identified by three outstanding characteristics (which show a close relationship to the concepts associated with generative thinking). The first characteristic is effective group dynamics since in the boardroom, ‘every voice is heard… meetings are very open… Directors can interact with anybody, at any time. New ideas arise spontaneously as individuals build on each other’s perspectives and those ideas get aired and tested by the group’ (Charan 2005: 29). Secondly, there must be appropriate information architecture because ‘boards need the right information in the right format at the right time’ in a comprehensible manner (Charan 2005: 47). The third characteristic is a focus on substantive issues arising because ‘as boards take charge of how they work, they must also take charge of what they work on… Compliance is a necessity, but it doesn’t make a board a competitive advantage. To fully evolve and contribute, boards must meet the challenge of keeping one eye on compliance and a second eye on the issues that are central to the business’ (Charan 2005: 61).

To help answer this question within a theoretical paradigm that is not based on the common economic, instrumental-rational paradigm that most governance practices are based upon, a rationale is provided for using Jurgen Habermas’ theory of communicative action as a guiding frame. This theory is embedded within a sociological paradigm and is considered to better suit the characteristics of TSOs whose mission is focussed on human social development, and not profit maximization.

**THE THEORY OF COMMUNICATIVE ACTION**

Habermas’ theory of communicative action (TCA) has been selected on the basis of the considered benefits in using a sociological embedded theory to understand governance in TSOs. While Habermas is ‘one of the most fruitful and most often quoted authors in modern sociology’ (Mitrovic 1999: 217), his TCA has not yet been used to inform any studies on governance within the third sector. However, it has been used in relation to studies of communication within a social development context (Jacobson 2003, 2004; Jacobson and Storey 2004) and by researchers within the public sector (Broadbent and Laughlin 1997; English and Guthrie 2003; Kelly 2004). In addition, Deflem (1994) used it to inform a study on social control, and O'Donnell and a number of colleagues used it in studies of intellectual capital (O'Donnell 1999; O'Donnell, et al 2000; O'Donnell and Henriksen 2002; O'Donnell et al 2003; O'Donnell 2004).

While the theory of communicative action is commonly applied to broader societal issues, it is appropriate to governance in TSOs because of its focus on coordinated action through understanding, not control or manipulation. As Habermas states, ‘I shall speak of communicative action whenever the actions of the agents involved are coordinated not through egocentric calculations of success but through acts of reaching understanding’ (Habermas 1984: 285-6). The emphasis is that action is bought about as a result of communication and communication itself is a key type of action. To this end, Jacobson (2003: 103) asserted that ‘the focal issue is not whether one is communicating in the sense of exchanging information. The focal issue is what one’s actions accomplish in relation to others… Habermas defines communicative action as action oriented toward understanding.
Action oriented toward manipulation, rather than understanding, is treated as non-communicative and labelled *strategic action.*

In contrast to the ‘cognitive-instrumental rationality’ associated with economic theories in which the focus is on subject-object relationships where material objects and ‘human resources’ are manipulated for benefit, the TCA focuses on ‘communicative rationality’ evident when people through speech and action come to an understanding with one another about something of importance to each other without strategic interference (Habermas 1984: 392). Communicative action refers to

the interaction of at least two subjects capable of speech and action who establish interpersonal relations (whether by verbal or extra-verbal means). The actors seek to reach an understanding about the action situation and their plans of action in order to co-ordinate their actions by way of agreement. The central concept of interpretation refers in the first instance to negotiating definitions of the situation [that] admit of consensus (Habermas 1984: 86).

It is accepted that the conventional perspective of governance is very much about ‘control’, as seen in the UK Cadbury committee’s definition of corporate governance as ‘the system by which companies are directed and controlled’ (Cadbury 1992: par 2.5, emphasis added). However, it is argued that this is primarily because of the economic rationale behind conventional understanding. In contrast, the root of the term ‘governance’ originates in the Greek word *kybernan* and refers to the function of ‘steersmanship’. As Beer explained, ‘at sea the long ships battled with rain, wind and tides – matters no way predictable. However, if the man operating the rudder kept his eye on a distant lighthouse, he could manipulate the tiller, adjusting continuously in real-time towards the light’ (Beer 2004: 853). Operating the rudder was the function of the *kybernan*. (This word transliterates into English as *cybernetes*. In Latin *kybernan* is transformed into *gubernator*, which in English is translated ‘governor’.) While the concept of ‘steersmanship’ may have an element of control, it has the potential for a richer depth of meaning. This depth is evident in the cybernetic perspective of governance of nested organisations as being ‘a matter of autonomous networked organizations achieving cohesion’ (Espinosa et al 2004: 578, emphasis added).

At the core of the TCA is the recognition that communicative rationality is different from instrumental means-end rationality:

The instrumental means-end rationality of the systems of money and power is geared to success, efficiency, control, profit or market share. In contrast, the communicative rationality of the human lifeworld is geared to understanding and agreement (Habermas 1987 cited by O’Donnell and Henriksen 2002: 93).

‘Steersmanship’ could consequently be conceived as operating within either dimensions of rationality. While organisations whose purpose is profit maximisation may predominantly use ‘directed and controlled’ approaches to governance underpinned by instrumental means-end rationality with a focus on subject-object relationships, it is proposed that ‘steersmanship’ within organisations whose purpose is humanitarian wellbeing would be better served by governance approaches that are guided by communicative rationality with a focus on subject-subject relationships as found in the TCA.

A further important contribution of Jurgen Habermas associated with the TCA is the concept of modern society being comprised of a complex ‘lifeworld’ that can be impacted by powerful social systems (economic, political and legal-normative) through ‘steering media’ of money.
and power (as shown in Figure 2). Within the lifeworld, people lead their everyday lives by establishing more or less direct relationships with each other (Mitrovic 1999: 220). In an ideal situation, the lifeworld can develop and reproduce itself through processes of communicative action free from coercive, manipulative or strategic influences of the systems of money and power. The lifeworld is composed of various interacting and integrated elements, including physical, social and personal aspects. This gives rise to understandings about objective truth, normative reality and subjective authenticity (Habermas 1984: 95).

According to Habermas, in an ‘ideal speech’ situation, communicative action is achieved when two general rules are adhered to: (1) that there is no manipulation involved in the communication, and (2) that everything communicated is open to question about its validity (White 1988: 56). Understanding that leads to action is achieved when the better argument is selected as a result of reciprocal discourse relative to four validity claims: (1) that the statement communicated is true with respect to the objective world; (2) that the statement is right with respect to the normative, social world; (3) that the statement is honest in respect to the speaker’s subjective world, and (4) that the statement is comprehensible (Habermas 1984: 99). This validation occurs implicitly as well as explicitly. In situations where the steering media of money or power result in manipulative or strategic interruptions to the free and open validation of communication in respect to any of these above validity claims, ‘then “colonisation” of the lifeworld is considered to have occurred (Habermas 1987: 196).

These characteristics of TCA provide a new lens by which governance of TSOs can be considered. Thus, governance can be defined as the organisational steering mechanism that uses communicative actions to guide the activities within an organisation’s lifeworld so that organisational purpose is achieved, free from manipulation and colonisation by external systems of power and money.

Governing boards are the predominant means through which this can be achieved. However, the TCA provides a plausible theoretical basis upon which to analyse generative leadership of a governing board of directors. The core principle of generative thinking as espoused by
Chait et al (2005) and referred to earlier are aligned with the concepts of communicative action. The TCA provides what they said was needed – ‘a strategy for understanding’ and a means to ‘raise the quality of discourse’ where questions are no longer treated ‘as options but as devices for understanding their organisations’ (Chait et al 2005: 131, 126, 123). Instead of board meetings being strategic, manipulative events where power struggles occur, trustees are ‘licensed to raise questions’, have ‘permission to challenge dubious assumptions or questionable strategies’, and the board’s prevalent norms encourage ‘uninhibited conversations, alternative frames, and playful ideas’ (Chait et al 2005: 157).

**FUTURE RESEARCH**

The model of governance as leadership proposed by Chait and colleagues opens up possibilities to help identify how governing board directors of TSOs can most effectively ensure that their organisation’s core purpose for existing remains the main focus of the organisation’s management’s attention within an environment of increasing extra demands. This leads to a specific question to be addressed in future research: Can generative thinking by governing board directors help to keep TSOs focussed on their core purpose? The TCA and associated lifeworld concepts, when combined with the concepts of governance as leadership, provide a rationale for the following two hypotheses that will help predict answers to this question (the example given relates to a faith-based TSO).

The first hypothesis proposes that governing boards that engage primarily in fiduciary and strategic modes of thinking and neglect generative thinking will be predominantly focussed on issues relating to donors and other peripheral religious/institutional interests rather than core organisational purpose issues. In this situation, the governing board’s main attention is directed externally to the systems of money and power that have claims on the organisation. The board works strategically with instrumental rationality to ensure that the organisation’s practices harmonise with such a focus (Figure 3A). As a consequence, the systems associated with money (for example, donors) and power (for example, church administration), have a colonising influence over the lifeworld of the organisation.

**Figure 3: Simplified schematic demonstrating two hypotheses in respect to governance of a faith-based TSO informed by the theory of communicative action.**
In contrast, a second governance approach works in a subtly different manner in which directors are fully aligned with the organisation’s core purpose and work through communicative action to ensure that the forces of money and power support the lifeworld of the organisation without colonising it (as shown in Figure 3B). Thus the second hypothesis is that governing boards that engage regularly in generative thinking to support fiduciary and strategic modes of thinking will be predominantly focussed on issues relating to the core purpose of the organisation and will work to ensure that donors and other peripheral religious/institutional interests are harnessed in support of the core purpose.

The predominant mode of operation of directors in this situation would be generative thinking, and strategic processes would be engaged to ensure that steering media enhance the lifeworld of the organisation and that colonisation by such is prevented. Fiduciary responsibilities would still be met, but not at the expense of increasingly effective mission accomplishment.

One of the key characteristics of Habermas’ TCA, as observed by Jacobson (2004: 8) is its empirical orientation. The concept of ideal speech referred to above is advanced in the form of an hypothesis. Reciprocal expectations regarding validity claims are taken to comprise rules that all human beings employ in the generation of speech as a pragmatic, real, and universal necessity. Linking ideal speech acts as evidence of generative thinking of a governing board will provide an opportunity to use the TCA to evaluate the quality of generative thinking within a governance context.

Gaining information to help understand the dynamics of generative thinking in the context of a governing board, and being able to use this information to help board directors keep their organisations mission focussed will require participatory, action oriented inquiry approaches. A participatory action research strategy (Kemmis and McTaggart 2003) is consequently proposed as the most suitable strategy for future research in this area. This would enable board directors themselves and relevant others at various levels within the hierarchy of the organisation to be intimately involved in the inquiry process. The desire in this is that participants will be able to see the local setting in which they are involved as connected to wider social and historical conditions. This would involve ‘illuminating and clarifying interconnections and tensions between elements of a setting in terms that participants themselves regard as authentic’ (Kemmis and McTaggart 2003: 347).

CONTRIBUTIONS AND CONCLUSION

The main contribution of this paper is the attempt to frame governance using a new paradigm based upon communicative rationality rather than instrumental rationality. This is particularly useful for TSOs whose core purpose is societal improvement rather than shareholder wealth. It will also lead to increased understanding of culture, society and human interactions, as well as processes to aid in the achievement of this understanding.

Framing governance in relation to generative thinking also promotes new ways to help bring about improvements in society using cooperative, communicative processes free from coercion and manipulation. Other outcomes for TSOs could be a greater awareness the role they play within society, new insights in respect to empowerment of board directors that could be applicable to a wide range of organisations and adoption of new approaches and tools to help people work more productively together in groups.
The understanding gained through this research has limitations relative to its generalisability. However, critical theory acknowledges that each situation is the result of specific historical and social processes. Expecting that wide reaching solutions to socially constructed problems can be achieved through a limited research processes is not realistic. The greatest benefits will be the lessons learned from the process of applying this theory within the context of a governing board and the implications of this in respect to communicative actions.

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