

Auditing as a Trust Creation Process¹

Raúl Espejo

This paper offers an account of processes to build up relations of trust in organisations. The conceptual base of the discussion is centred upon the idea of managing complexity. Specifically, trust is observed not only as a form of making the world predictable and therefore an attenuator of complexity, but also as a most powerful amplifier of social complexity. In the paper the distinction is made between contextual trust and responsible trust. It is argued that responsible trust is necessary in order to accept diversity and increase the organisation's performance in a demanding environment. This, in turn, suggests the necessity to move from hierarchical organisations to recursive organisations. The system in focus of this work was the Colombian State and, in particular, the National Audit Office of Colombia that begun a process to support the development of self-controlled organisational systems. **KEY WORDS:** Trust, second order auditing, managing complexity, recursive organisations, autonomy, control dilemmas, individual learning, organisational learning.

1. INTRODUCTION

In this article I offer an account of a process to build up trust in the Colombian State. It should not be necessary to expand on the need to develop relations of trust in any organisation. Furthermore, this type of relations is particularly important for democratic countries in crisis, as in the case of Colombia. From 1995 to 1998 trust was a critical theme of debate in the National Audit Office of Colombia (Contraloría General de la República or CGR). Late in 1994 I had agreed to work on a new concept of auditing for the Colombian State based on a fundamental revision of the concept of control. In this article I develop this concept and relate it to the idea of building up relations of trust.

The conceptual base to discuss the idea of trust will be the management of complexity in organisations. The State will be the system in focus and it will be modelled in terms of autonomous units within autonomous units. This is a natural strategy to cope with complexity (Beer, 1979). Moreover, if State institutions are not going to be just a set of dispersed or weakly related units, it is fundamental to understand how to produce cohesive forces among them. These are mutual relations of control. Discussing the idea of control is central to this article. I will argue that it is common to understand control as inspecting and that this interpretation generates a control dilemma in organisations. I will show the need to reconstruct this concept. As an outcome of this reconstruction a new form of understanding the ideas of trust and cohesion will arise.

2. ABOUT TRUST

When speaking of trust we are suggesting that we accept the actions of others without feeling the need to scrutinise them. Trust is a precondition to enter into social relations. Trusting the social order is a precondition to avoid individual paralysis. Trust is a key factor to make our world more convivial. Yet it should not be understood just as a way of making our environment more predictable, as suggested by some literature (Luhmann, 1996; Hummels, 1997). In other words, I understand trust not only as a form of reducing the complexity of our world relevant to each of us, although this is its most common use, but also as a most powerful amplifier of social complexity, one that we can rely on to make the construction of demanding collaborative enterprises possible.

If we didn't trust others and all our actions required scrutiny and revision, we would severely restrict our space for action and our lives would be that much more difficult to live. Crossing a traffic light would require checking the coming drivers' licenses! This makes no sense. Of course, for all those aspects that are not essential to our fundamental tasks (i.e. to our purposes), we may wish to have a more predictable world and for this building up *contextual trust* plays an important role. However, for those aspects producing our tasks, in which more people are contributing, I argue that trust should not be a means of making our world more predictable, that

¹ Auditing as a Trust Creation Process, in *Systemic Practice and Action Research*, Vol. 14, No 2, pp 215-236.

is, a means to anticipate what the others will do. This would imply expecting that the others see the task as we do, thus denying them legitimate autonomy in its construction, implicitly imposing our views onto them. On the contrary, in this case trust should imply expecting surprises, that is, expecting to build up tasks with the creative and independent input of others. As we will see these collaborative efforts imply sharing realities and in general maintaining a degree of mutual understanding, but not predictability. However, accepting this unpredictability without corroborating the competencies and sincerity of the others would be to blindly accept their actions, and therefore would be a case of *irresponsible trust*.

Success in collaborative work depends not on the domination of one viewpoint over the others, but on the creative and often unpredictable contribution of participants. When this point is not understood, and we expect predictability in situations that require creative collaboration, a dilemma arises. Our behaviour will be inhibiting the others precisely when their creativity is most in need. Indeed, this kind of behaviour is reducing task variety precisely when it may require more variety to succeed. Additionally the implied relations will not be stable. On the one hand, if the others are *truly* others with their own autonomy, and our 'trust' implies expecting predictable behaviours, we will soon experience disillusionment and mistrust. They are their own people. On the other hand, if the others choose to make themselves predictable and, tacitly or explicitly, submit themselves to our unilateral power, we only achieve submission but not trust. They will turn their backs on us sooner or later. In all these cases we will not be really participating in creative social relations.

The activities of the State are based on the collaboration of many people. Concern for efficiency and probity in this situation makes it tempting to use management strategies based on making people predictable. If this approach goes hand in hand with punitive controls the chances are that overall performance of the State will suffer severely. We need a different approach to control, one based on trust. But it has to be a trust that goes beyond making people predictable. We need a concept of trust able to accommodate conditions of uncertainty and unpredictability. At the National Audit Office (CGR) one of our concerns was producing an auditing process that did not stifle creativity in the public sector.

3. THE STATE AND THE CGR AS THE ORGANISATIONS IN FOCUS

The system in focus of this work was the Colombian State. A widely accepted concept of a democratic State is that of a society, politically organised as a whole, that includes the citizens, the traditions, the territory and the power, that is, all the institutions that are constituted through democratic processes. In this concept, the State should create the conditions permitting the development, maintenance and perpetuation of the society that gives it its origin. The State arises from the citizens, and has its reason of being in them, that is, in the legitimate participants in society. For example, the judicial system can be understood as constituted not only by the institutions of the judicial power, but also by all the citizens who, through their judged actions, contribute to define the properties and characteristics of this system. However, the focus of this article is on the institutions of Government rather than on the more embracing myriad of social interactions producing social systems.

The State is structured by institutions whose purposes are the outcome of meaning creation processes in society. What types of institutions exist? There are institutions that to different degrees are oriented to creating, regulating and implementing social meanings, that is, to articulating, maintaining and perpetuating the fundamental principles and values of society. In other words, the State is responsible for conserving what we may call society's primary goods. Together its constituting institutions are responsible for realising the State's *primary activities*, and therefore are responsible for creating and protecting justice, the basic liberties, freedom to move and work, the right to peace, education, and culture and to all other goods aimed at protecting the social well-being. Departments of State such as Justice, Education, Health and Transportation orchestrate institutional production of these goods. In general these are institutions responsible for creating and regulating policies, but not for their implementation. This is done through other institutions. Thus, it is the set of institutions creating, regulating and implementing these social goods that constitute the State's primary activities. This set is by definition self-producing and self-referential thus implying that structurally it is autonomous. Therefore the State as a whole and its primary activities are seen in this framework as autonomous organisations.

Autonomous organisations should serve their own interests in order to maintain this autonomy. However, this is contextualised autonomy and should in no case be interpreted as independence or isolation. For an

organisation to serve its own interests it needs to collaborate and co-operate with others. Social and individual interests are not understood in this framework as if they were opposing each other. These are co-evolving interests which include each other's reciprocally.

I call those institutions whose functions are focused on creating and regulating policies, rather than on their implementation, the *regulatory functions* of society. The National Audit Office is an example of this type of functions, the National Planning Office is another. These institutions are not creating social goods or implementing the tasks of the government but are creating the conditions for these to be implemented through effective planning, control and support mechanisms.

Institutions such as the CGR, whose normative purpose is to watch for the efficient and effective use of the resources of the State, taking into consideration short and long term aspects, are services within the State as a whole or within some of its primary activities. Their justification is not in themselves, but in the services they give to other institutions in the constitution of the State as a primary activity. Below I will return to this point and distinguish five types of institutions.

4. INSTITUTIONS AND ORGANISATIONAL SYSTEMS

As was indicated previously, an effective strategy to handle organisational complexity is by creating the conditions for aligned² autonomous units within autonomous units. This unfolding of complexity happens de facto in any organisation. However, it is important to facilitate only the autonomy of those institutions and units that are aligned with the espoused, legitimately generated, primary purposes of the State and not of those whose purposes are regulatory.

Therefore the State should enable the autonomy of some institutions and not of others. If institutions like the CGR develop autonomy and justify their existence with reference to themselves regardless of the institutions they should serve, the State becomes dysfunctional and fragmented. Those institutions should not serve their own interests but those of the 'total organisation' or organisational system of which they are part. As we will see below, even institutions that seemingly appear as primary activities, when scrutinised in more detail may not justify their existence without reference to a larger organisational system, that is, they should not be organisational systems themselves. But, what is it a 'total organisation' or organisational system?

In this paper, I define a *total organisation* or *organisational system* as an assembly of interrelated resources with the capacity for creating, regulating and producing their own products or services. If any of these three functional capacities are missing we may have an institution, or a set of institutions, but not an organisational system. It is the assembly of these capacities, properly balanced, through effective relations, that permits us to speak of a system as an effective organisation (Espejo, 1989). This definition implies the necessity to develop the capacity 'to see systems'. Generally State institutions are not systems. It is necessary to see them in relation to other institutions to be able to recognise them as a totality. Therefore, in order to understand the functionality of the State it is necessary to see organisations beyond institutions. This proposition has important implications to understanding the activities of *auditing* the State institutions. Auditing an institution in isolation allows us in general to see only a fragmented social primary process rather than a total primary process. In other words we will be unable to see relations from the creation of a service or product to its implementation. This makes it impossible to see how these institutions close their communication and information circuits with those that are affected by their activities. This impossibility, as we will see later on, weakens processes of building trust in the State. This systemic requirement underpins the need to go beyond traditional (first order) auditing into *second order auditing* or organisational auditing (see paper by Espejo, Bula and Zarama in this same issue). First order auditing is generally based on an institutional rather than a systemic view of the State.

From the perspective of their systemicity we can recognise five types of institutions:

² Aligned in this case means purposeful subsumed autonomous units whose interactions produce a subsuming autonomous unit with a purpose/meaning coherent with that that has been ascribed to it by its policy makers.

- First, there are institutions that are fundamentally responsible for *creating* (inventing) social goods; these are the institutions responsible for the formulation of policies. For example the Office of the President, and also regional and municipal councils, are examples of this type. These institutions create policies, but by themselves have little, if any capacity for their regulation and implementation.
- Second, other institutions have *political and regulatory* responsibilities. For example, this is the case of operating ministries such as education or health. These are institutions that have statutory responsibilities both for policy formulation and regulation, but in general not for their implementation.
- Third, yet others have fundamentally *regulatory* responsibilities and therefore they are serving other institutions, whether in the definition of policies or in their implementation, or in both. For example, the Ministry of Finance and also the National Planning Office contribute to national definitions of policies and also regulate their implementation. Although these institutions may appear, in some cases, as if they were defining policies by themselves, it is clear that they have to frame them within the context of the global policies of the State. In this category we find two types of institutions. Firstly, those that may need to be functionally centralised, as would be the case of the Ministry of Finance; it does not seem adequate to have different fiscal policies in different regions of the country. Secondly, those that may need to be functionally decentralised as is the case of the National Planning Office; it does not seem adequate to plan at the Centre for all the regions and localities³. The CGR is also a regulatory institution of the second kind; it does not seem adequate to audit all public institutions from the centre.
- Fourth, there are institutions that at the same time as being responsible for *creating and regulating* their own policies are responsible for their *implementation* in the framework of more global policies, that is, they are responsible for the production of social products and services. These institutions are primary activities within the State, for example a State university, or a hospital. Also there are examples of State owned commercial activities, like the National Oil Company.
- Finally, there are institutions that have both *regulatory* and *primary* functions at the same time. For example, the National Service for Statistics supports the regulation of the State but also offers commercial services to third parties.

Therefore, in general we need combinations of institutions to have a system and it is only in the last two categories that we may be able to 'see systems' as single institutions or within institutions. Institutions as the ministries are not 'total organisations' or systems. For example, for second order auditing purposes it is necessary to observe the *education system* and not the Ministry of Education in isolation. The ministry on its own can be audited from the perspective of the efficiency and honesty of its officers in the use of resources, but not from the perspective of the effectiveness of the educational policies.

It is only in organisational systems (that is, total organisations) such as the State as a whole or the *educational system*, as one of its primary activities that we should expect the development of autonomy and not in the functional ministries by themselves (Figure 1). It is the educational system that produces the *good* education. The ministry will be responsible for educational policies, for creating and regulating the educational tasks, but more specific units and institutions will be responsible for their implementation. They do this by creating, regulating and implementing their own tasks. These are the primary activities of the education system. This is the unfolding of complexity of the education system when it is seen as a *recursive organisation*.

³ See paper by Lleras in this issue for an example of the consequences of not recognising this point.

Figure1 Recursive Organisation: Unfolding of Complexity

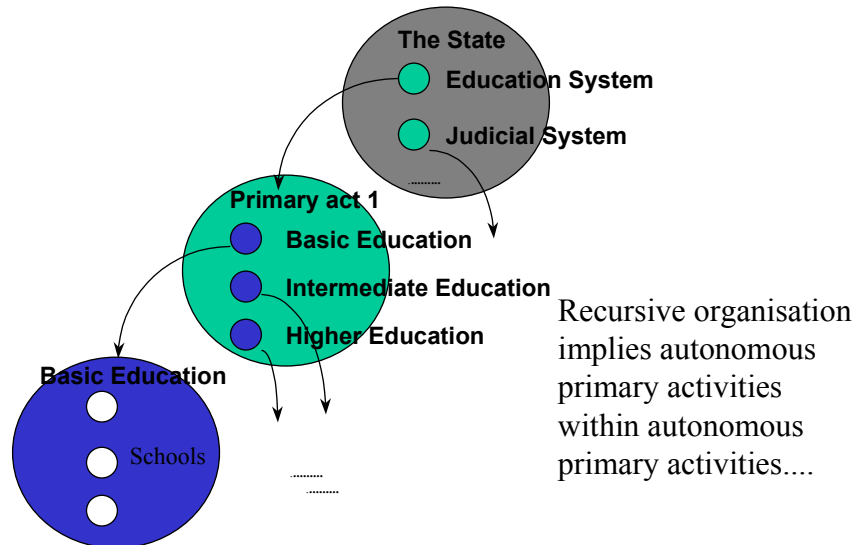


Fig. 1 Recursive organisation: Unfolding of complexity

We could think, by way of an example, about three autonomous primary educational activities; Basic Education, Intermediate Education and Higher Education. Each one of these primary activities implements aspects of the educational task by developing their own capacity to create, regulate and implement their own tasks. Further more, within these primary activities, their tasks will similarly be produced by the synergistic integration of tasks created, regulated and implemented by their contained primary activities (or systems). For example, schools produce Basic Education. But it is only at the level of teachers, that is of the most basic 'units' creating, regulating and implementing their own tasks, that the education service is delivered to the community. The teacher, in co-evolution with children and people in the community, is the primary activity (the system) at the most basic level. It takes all these levels (as explained in this example) for the global educational policies to be transformed into education for the population. This unfolding also makes apparent that the teacher in a recursive organisation is constituted very differently to a hapless worker at the bottom of the hierarchy of the educational production line.

5. ENABLING AND RESPECTING AUTONOMY

This type of modelling, and this form of seeing the State, is not a form of repeating the hierarchy but of seeing desirable *systems* in a complex situation. It permits us to recognise the autonomous activities inside autonomous activities, and successively, those that are required to create, regulate and implement the policies of the State. It should be clear that within each of these primary activities, or systems, there are regulatory functions, perhaps in the form of several other institutions, responsible among others things, for making the autonomous systems that they constitute cohesive.

In a particular social situation, unfolding of complexity happens in one form or another as people develop relations towards producing common tasks. The question is whether this unfolding is consistent with legitimate global policies and whether it respects the autonomy of primary activities at the least cost to people. If the total task is the outcome of integrating multiple tasks created, regulated and implemented at several levels by legitimate primary activities, respecting in each case the autonomy of the subsumed units, the structural unfolding of complexity is said to be recursive. If, on the contrary, this unfolding is achieved by harnessing the

contributions of people to produce the task as created by those at the global level, we talk of a hierarchical organisation. Whether the unfolding is one or the other will depend, among other factors, on people's handling of interpersonal relations.

Autonomous units within autonomous units will arise in either case, simply because people's incapacity to handle the high complexity of social tasks at a single level. However, while in the case of recursive organisations unfolding will contribute to the production of legitimate socially agreed meanings (i.e. social goods or tasks), in the case of hierarchical organisations unfolding will contribute to producing tasks with undesirable consequences and meanings. Recursive organisations are offered here as an ideal to construct desirable meanings.

There is no doubt that to a large degree the creation, regulation and implementation of social goods are the responsibility of autonomous units inside the State. It is not the inevitability of these autonomous units that is in question; what is in question is the appropriateness of those that actually emerge. Often they create socially undesirable goods at a high cost to people and resources. This is a theme at the heart of the problems of trust, and as we will see, also of the problems of auditing.

Hierarchical relations reduce the possibility of generating effective autonomous units within autonomous units and increase the need for more structural levels requiring external controls and inspections. These are all consequences of inadequate autonomy enabling processes. Processes dominated by suspicion and the negation of the other as a legitimate other, produce costly and ineffective autonomous units, produce the atrophy of creativity and increase human suffering. The constituted relations are characterised by the hopeless impositions of a few viewpoints, of those in positions of power, and the passive, but also sometimes resentful, submission of those who have no choice but to live in that society. This type of relationship depends on the capacity of a group, relatively small, to coerce the majority in a direction that they may not even recognise. These relations not only produce inflexible organisations and reduce their overall variety, but at the personal level they create conflicts and unfulfilled people. This type of relationship creates the need for more and more supervision and therefore for more auditors. This type of dysfunctional relationship is the focus of second order auditing. The task of auditing is to expose them and to foster the organisation to improve them.

6. CONCEPT OF CONTROL

The above views suggest the need to develop the concept of control. Historically we have understood control as something imposed from others rather than produced from within ourselves. However, for organisations, control should be more than detecting their inadequate or poor functioning. Control should be achieving desired results through promoting good operations. But, what does promoting the good operation of State organisations mean? Control, particularly in bureaucratic organisations, is understood as verifying adherence to a regulation, or complying with procedures and standards, or reconciling figures. In general it is seen as inspection (from the outside) of activities in progress, without recognising at any moment the need to *see the systems* in which all these activities take place. This type of control may succeed in detecting problems and perhaps in increasing short-term local efficiency but it does not have systemic capacity to promote desirable results; simply there are not enough inspectors to inspect the enormous variety of activities in progress in any organisation. Since this lack of capacity is obvious, modern management techniques suggest increasing internal control and self-control. Unfortunately, if this *new* idea only implies accepting that the State cannot directly do the 'control' and that this has to be done by the social institutions themselves, whilst keeping inspection as the concept of control, then this change only implies shifting the burden from one place to another. Control is a systemic concept, that is, it emerges (or not) from the relations that produce an organisation and only marginally, from inspections of any kind. All existing relations are relations of control *in a system*, even if we don't know which the system is. All our relations, all our conversations, are regulatory relations. These relations create, one way or another, systems, that is, autonomous units with capacity for self-control. But if we are unaware of these systems or if they are dysfunctional, we may not only not understand the meaning of these relations but we may be the victims of inadequate organisational processes. If we fail in creating required meaningful conversational loops, we will not create commitments or mutual support, or self-control. This suggests the importance of seeing systems, understanding how they function and, if necessary, designing and creating them. If institutions relate to each other to produce desirable organisations, then their moment to moment operations will control their own activities. In this scenario, external control becomes marginal. The problem is maintaining organisational cohesion and this requirement takes us back to the problem of trust.

The previous ideas make the distinction between intrinsic and extrinsic control (Beer, 1966 page 263). Extrinsic control is one where the controller is not naturally inserted in the process-in-focus, and therefore is a control that is exercised by those who are watching and interrupting, from the outside, a process or a situation of interest. Intrinsic control on the other hand, is the control immanent in the system itself. It exists because the system exists. It emerges from the resources and relationships producing the system, that is, from its structure. As long as the system produces desirable properties it is itself a controller with inherent control capacity. This type of control is orders of magnitude more powerful than the extrinsic control. Hence the relevance of understanding how to produce desirable organisation structures in order to implement effective controls.

An extrinsic controller sees an institution as a black box, viewing it from the outside and searching to adjust it to some external criteria of performance. The intrinsic controllers are part of the situation itself, and it is in the flow of their actions that they contribute to its control. These actions happen in each of its interpersonal relations. Criteria of performance are internally generated in co-evolution with the situational environment. Control emerges when a person communicates with another. It is in these communications that we affect each other. Of course, these communications can be manipulative, coercive and misleading, and therefore intrinsic control can also be manipulative, coercive and misleading. Hence the relevance of genuine processes for creating trust in these situations. In other words, to have effective intrinsic control communicative rather than strategic action is necessary (Habermas, 1996).

From the perspective of those accountable for the effective use of the State resources, what does effective control mean? When can we say that they are successful in their control? If their viewpoint is extrinsic control, success may mean good and efficient institutional procedures. In fact, they are concerned with efficient rather than effective management. If the viewpoint is intrinsic control, success implies creating conditions for good communications, fit to their self-produced purposes. Achieving this implies, at least, creating organisations out of existing institutions and communicative action within them. Their concern is effective organisation. They understand that little is improved by having sophisticated external controls of institutions that do not produce effective organisations. At best they make the tacit ineffective organisation more efficient. If we want the message of improving control to be taken seriously, that is, if we want to be consistent with satisfying citizens' requirements (i.e. if we accept social control of institutions), it is fundamental to make these institutions function in accordance with these social requirements. For this it is necessary to improve the structures of the organisations underlying these institutions. It becomes necessary to create conditions for these institutions to constitute organisational systems with high capacity for self-control, with relations of mutual support and with natural relational balances. Control is lost when in these multiple relations cannot be closed effectively, that is, when relations lack effective checks and balances.

6.1. About Relations

Therefore, creating better conditions for institutional control requires creating more effective relations in the State. The State, because of its history and magnitude, offers a classical example of structural fragmentation, which has all kinds of negative effects upon interpersonal relations. As implied before, in part this structural fragmentation is the outcome of *hierarchical relations*, which are dominated by power groups and also by bureaucrats who tend to nurture dysfunctional (to the social interests) autonomous groups and inhibit the emergence of functional organisations. This kind of relationship, deeply enshrined in our modern societies, is at the core of our inability to build up responsible trust. Because of its significance I'll discuss it in the next section with the support of what I have called the *control dilemma* (Espejo, 1989). In any case, improving organisations, that is, improving organisational processes, require improving the nature of these vertical communications. It is necessary to pass from strategic relations, of domination and unilateral control, to communicative relations, of alignment of interests and mutual understanding. These relations, where the disposition is towards dialogue, are based upon mutual respect and recognition of the other as an autonomous other.

However, fragmented horizontal relations are as damaging as vertical hierarchical relations (Ashkenas et al, 1995). They become fragmented when process relations lack an organisational system with the capacity to integrate people's contributions to the regulation and production of social goods. This structural situation makes it very difficult for anyone to see the totality of any of the multiple implied processes. These communications promote fragmentation because they promote the parochial interests of particular institutions at the expense of

the interests of a total organisation. In many countries, this is particularly clear in the relations between regulatory institutions at the national level, where complementary functions such as planning, resources allocation and auditing are not only the responsibility of different institutions, but are managed as if they were autonomous units independent of each other. However their systemic connectivity is obvious. But this connectivity is commonly interpreted as a conflict of competencies rather than as an opportunity to collaborate and integrate institutional efforts. This structural problem becomes the source of antagonistic relationships. This reflection suggests that the National Audit Office, the National Planning Office and the Ministry of Finance should not be seen as autonomous units of the Colombian State, but as institutions requiring co-ordination and integration of their activities vis-à-vis the institutions producing social goods.

6.2. Control Dilemmas

Hierarchical relations produce control dilemmas. These dilemmas are often the source and outcome of hierarchical relations exacerbated by an ever-increasing environmental complexity, in which it becomes more and more difficult to accept the other as an autonomous other. As the tasks of a global organisation become more complex, its middle and local levels require more flexibility, more capacity to take local decisions and to produce local responses. In short, they require autonomy. However, as middle and local level managers take more initiatives, accepting the challenge of their own tasks, and become more autonomous, global managers start to feel that they are losing situational control. Their intuitive response is to reduce this flexibility. They start to ask for more information, add restrictions and get more involved in local activities. Precisely when people in the organisation feel the need for more flexibility, they find their space for action restricted; they find themselves spending more time dealing with these internal requirements at the expense of environmental issues. This reduces their performance. This is a concrete expression of not understanding how to build up trust in these relations.

A fragmented State, constituted by weakly related institutions, is a fertile ground for control dilemmas. Lack of co-ordination and poorly articulated monitoring-control mechanisms make it more likely that several instances will impose overlapping procedures, make increasing demands and require similar information. The predictable effect of these behaviours is to remove implementation resources from implementing policies in order to respond to these requirements. This weakens primary activities' sense of purpose, as they lose track of their fundamental task of creating social goods. As a result of this, people in these implementing units often lose motivation and resign themselves to becoming bureaucrats, slaves of the 'system'. At the same time, those at the 'higher' levels do not know what to do with the information they receive. They have the capacity for nothing more than shelving the accumulated reports. This is a problem not only for institutions but also for each of us in our daily lives. In organisational terms, the control dilemma is a symptom of a relational problem. It is an expression of people's inability to develop healthy relations, respecting the autonomy of others in the organisation.

It should be apparent in the above discussion that this relational problem affects good performance as well. In order for an organisation to carry out its self-created purposes, it has to foster flexibility so that its primary activities are able to exercise their autonomy. This is the fostering of self-control. However, if we do not accept the autonomy of the others we will feel that we are losing control and therefore we will increase our demands, thus making losing control more likely.

How do we come out of this dilemma? We need to learn how to produce relations that at the same time as enhancing mutual autonomy, increase the chances of achieving organisational cohesion. Autonomy and self-control do not imply being independent and a free for all. If they are going to enhance our chances of good performance they have to be responsible autonomy and self-control. This implies learning to balance organisational cohesion and local autonomy. And this learning, as we will see next, implies understanding how to unleash trust creation processes. From the perspective of auditing, this dilemma suggests that auditors have to learn to detect and to observe it in the institutions they audit. Not dissolving or resolving these control dilemmas means accepting an inadequate use of the organisation's human resources.

7. INDIVIDUAL AND ORGANISATIONAL LEARNING

Hierarchical relations, besides producing control dilemmas, create individual and organisational learning obstacles. They increase the gap between thinking and doing. What is the implication of this separation between thinking and doing?

The implication is having officers and managers at the global level thinking for the rest. In the State this means a few people developing plans and programs for the future of the country with minimum contribution of other officers but most fundamentally, with minimal participation of the citizens affected by these plans and programs, that is minimal social control. The assumption is that those down the hierarchy are going to do what they are told. This is the kind of behaviour which assumes the others are (ought to be) predictable and therefore assumes trust as contextual. But as explained before, in organisations this is a form of power that achieves submission but not trust. This situation is not only unjust, it is highly ineffective and inefficient. It steals from the organisation the capacity of its people, limiting it to the capacities of a few.

An effective organisation is one able to nurture capacity for thinking and doing at all levels. Moreover, the time horizon for thinking and doing at all levels should be short, medium and long term. This is an organisation with learning distributed everywhere. This is characteristic of a recursive organisation structure. This kind of structure supports people's development throughout the organisation. This is key in developing effective organisations.

8. RECONSTRUCTION OF THE CONCEPT OF CONTROL

To undertake these learning processes requires vision, leadership and resources. These are common requirements for processes of organisational change and transformation.

Figure 1 highlights the idea of being contained as opposed to the idea of being controlled. This is the idea of recursive unfolding of complexity. It is now possible to think about this unfolding as a way of modelling the State. How do we envisage the containment of the sectors within the State's Executive Power? Which autonomous primary activities do we expect to be contained within each sector? Which institutions make up these primary activities? And so forth until we account for the resources producing the products and services of the State. This is an approach to hypothesise the autonomous units within autonomous units that we may expect to see in the State. Diagnostically we may expect to find multiple units that should be autonomous but are not, as well as units that are autonomous and should not be.

Perhaps one of the most significant aspects of this modelling of the State is that it gives us a template to understand the kind of relations that we may expect to find in it as a platform to support its effective performance. These are all units contained in the State, its sectors, sub sectors and enterprises that together are producing its tasks. If all these units are contained rather than controlled, we may expect to find between them relations of responsible trust, which are not based on predictability but on surprise and creativity. Their relationships are the focus for building up organisational trust, that go beyond individual trust. Trust achieved not upon reducing the variety of the contained organisations, by making them predictable, but upon their role as amplifiers of global policies taking into account the interests of citizens. Building up trust is a process that applies both to individuals and organisations. It is a process aimed at developing self-esteem and competence, at the individual and collective levels. It is a process that is based on realistic assessments of individual and organisational capabilities and potentials.

Each person needs to learn how to recognise others participating in a common task as legitimate others with their own autonomy, and therefore able to produce surprises. This is a learning that implies changing the way we see and produce interpersonal communications. There are several obstacles to this learning. At the level of individuals, those in positions of power often want to see the unchallenged implementation of their viewpoints, and those in weaker positions are often conditioned to expect and accept the views of the others. At the level of the organisation, people need to learn to see the people they interact with as representing organisations with their own capacity to create, regulate and implement social goods. This requirement is particularly difficult if we take into account the fragmented nature of institutions and units within them. It is difficult to see wholes. This fragmentation is an important obstacle for organisational and individual learning.

The challenge is in boot-strapping the related learning. If the complexity unfolding is not recursive there are serious obstacles for learning; however without this learning there is no chance to have a recursive unfolding of complexity. This is naturally compounded when the system in focus is the State. In this case it is necessary to

overcome structural fragmentation by orchestrating multiple processes of meaning creation between essentially different institutions. In what follows I explain aspects of these processes, based on building up trust. This is a reconstruction of the concept of control.

I will first discuss interpersonal communications and then inter-organisational relations.

8.1. Interpersonal communications

The issue is to understand some of the requirements for effective communications between two people collaborating in the construction of a common task. As said earlier, this construction is likely to be more effective if each one contributes creatively towards the common, often evolving and largely unknown task. This requires accepting each other as a valid other with autonomy. However, if the relation between the two is not going to end in disappointment it is necessary for each to build up responsible trust in the other. This naturally requires both to assess the competence and sincerity of the other. This grounding of trust in each other happens while producing shared meanings in their common activities. Over time, each one is able to assess the competence and sincerity of the other. Indeed, building up trust in the other requires more than sharing goals, values and interests; it requires experiencing the other in action. It is only then that we can assess (i.e. know) their competencies. Communication between the two is far more than transmitting information from one to the other, it is also successful co-ordinating of actions in relation to meanings or tasks they construct and produce together. This way the two persons are not only exercising their autonomy but are also creating between the two something that is more than the addition of their individual parts. Communication implies *crossing the boundaries* of the other, without being intrusive into what is proper to the other. If the two persons are successful in this communicative process I suggest that they are succeeding in building up responsible trust in each other. This communication also requires sharing an enabling context where multiple routine meanings have already been grounded in language and therefore where there is a platform for the construction of new meanings. This is the platform providing contextual trust.

Figure 2 shows some of these distinctions. It makes apparent we are considering two types of interpersonal relations, those of *facilitation* and those of *creation together*. It also asks whether corroboration is necessary in order to trust in each case. Corroboration in this context means the need for each person to confirm the competence and sincerity of the other. The most common situation in social life is to encounter relations of facilitation. These are relations grounded in the moment-to-moment co-ordination of actions with others sharing the same social and institutional backgrounds. In other words, where interaction is made more predictable because of social or organisational norms. These interactions account for most of our individual and social complexity. Trusting, in this case, is based on social rather than personal experiences and we accept them as equivalent to corroborating the competence and sincerity of the other. We call this contextual trust. Asking for corroboration would reduce us to inaction, as normal intercourse would overload us with more and more corroboration demands. These are standard and common situations in which *most* people behave predictably. The cost of corroboration is too high for the benefits it produces. It would *stifle us*. However, the most interesting and demanding relations in life are likely to be those where we agree to create and produce something together with others. In this case not corroborating the competence and sincerity of the other is not only risky but more fundamentally implies taking the other for granted. Implicitly, we believe that the other will do as we expect. This may be the case if we are lucky, but most likely we will experience disillusionment. However, once it becomes apparent that the other person does not have the competencies we expected we realise how *naïve* our trust was. Building up *responsible trust* requires an early corroboration of the competence and sincerity of the other as we start collaborating in a task. It also requires an on-going process of mutual corroboration through which we constantly adjust the evolving meanings of the shared task with the evolving operational capabilities of the participants. If these two conditions do not apply the chances of a communication breakdown are significant.

Relation is of:

		facilitation	creation together
Corroborati- on?	No	<i>Contextual trust: social and institutional</i>	Naive trust
	Yes	Stifling trust	<i>Responsible trust</i>

Fig. 2. Building up Trust

8.2. Inter-organisational relations

The issue now is to work out requirements for effective communications between autonomous organisations collaborating in the construction of a common task. This is the situation of primary activities producing an organisation as they interact with each other, which in its turn subsumes them as primary activities. As in the case of personal interactions, this construction is likely to be more effective if those representing each primary activity contribute *creatively* towards the common, often evolving and largely unknown task. This requires those representing the global organisation to accept the subsumed primary activities as valid others with autonomy. And this implies building up *responsible trust* between them. If this is not the case, in a flexible situation, defection will be the most likely outcome, however in situations with no flexibility for defection hierarchies and disappointment are more likely to be the outcomes.

Collaboration in the creation and production of a common task requires all parties to assess the competencies and sincerity of the others. Assuming there is a recursive structure this grounding of trust in each other happens as all primary activities produce their own meanings/tasks and, through their interactions, produce the organisation containing them, i.e., their shared task. But, what about the relations between those representing the overall organisation and those representing the primary activities? Communication between the two is far more than resource allocation of one and reporting of the other. It is much more than transmitting information from one to the other. For those at the global level it means *seeing* their contained primary activities and *crossing their boundaries* to assess their realities in terms of their capabilities. Without these efforts there is no communication. *This is the necessary corroboration to produce responsible trust between them.* Communication, as in interpersonal situations, implies *crossing the boundaries* of the other, without being intrusive into what is proper to the other. It is only when this is achieved that those at the global level are in the position of knowing what the situation in the primary activities is, and therefore, it is only then that it makes sense to trust them. Those at the global level can now negotiate resource allocation towards producing a shared task with the knowledge of the primary activities' competence and sincerity. This is a form of responsible trust. Agreements without this crossing of boundaries are empty agreements. Whether the contributions of primary activities are

aligned or not with global interests will be a matter of chance and not of design. Trusting in these conditions is naïve.

In Figure 3 we can recognise again relations of facilitation and creation. In organisations, building up effective relations of facilitation or co-ordination is particularly important, simply because they open up the space for the autonomous behaviour of primary activities, that is they open the space for relations of creation. A strong shared culture makes the presence of contextual trust more likely. People in the organisation can anticipate the behaviours of others more readily. However, when this distinction is not understood and those at the global level interfere with relations of facilitation (i.e. co-ordination) they contribute to control dilemmas and inhibit local creativity. This is what in Figure 3 is called *stifling trust*. Therefore we can anticipate that corroboration related to aspects that are not essential to the purposes of the primary activities, are stifling their creativity. Indeed there is no need for corroboration in these circumstances except for technical audits orthogonal to the primary activities' purposes. It is accepted that each primary activity wants to make itself predictable to the others. The grounding for this co-ordination of actions has already been done. There is contextual trust based on a shared organisational culture. But the situation is very different for relations engaged in creation of a common task. For these purposes we expect that there will be corroboration. Each part in the interaction needs to establish the competence and sincerity of those representing the organisation or primary activity. It is necessary to build up responsible trust between autonomous organisations. This is a relationship based on communications beyond information. Those representing each primary activity need to *audit* the others they are interacting with. Not doing so is irresponsible and naïve. Each side would base its judgements on uncorroborated information. Therefore auditing in this case is intended as a means to cross the boundaries of the interrelated organisations. By and large, auditing means experiencing together common action beyond just reporting to each other. It is in building up this shared interaction space that we can assess the competence and sincerity of the others.

		Relation of:	
		facilitation	creation
Corroboration	No	<i>Contextual trust: developing the organization's culture</i>	Naive trust: relation based on information
	Yes	Stifling trust: control dilemma	<i>Responsible trust: relation based on communications</i>

Fig. 3. Building up Trust in an organisation

9. SECOND ORDER CONTROL AND AUDITING

The problem of the Colombian State, as of many others, is that historically their development has been dominated by a hierarchical unfolding of complexity. Personal relations were and are influenced by unilateral control and organisational relations were and are dominated by a stifling trust that fosters games of deception and corruption. This type of structure makes personal and organisational learning very difficult. The transformation programme in Colombia was focused on changing this situation. From 1995 to 1998 the challenge was how to influence the evolution of the State towards a recursive structure. For that purpose the emphasis was in creating a new concept and discourse of control. This discourse was based on our reconstruction of the concept of control and in particular on building up responsible trust.

The aim was to promote a recursive structure for the Colombian State. It was necessary to promote autonomous sectors and within them autonomous services and enterprises with their own capacity to create, regulate and produce their social goods. It was also necessary to attack the State's tendency to make institutions like the National Audit Office and the Ministries for Finance and Planning independent autonomous organisations. Their intertwined regulatory and policy roles had to be recognised in order to produce relations supporting cohesion rather than fragmentation. One of the main tasks of auditors became to diagnose fragmentation and promote creativity and problem solving capacity at the local level. For these purpose auditors were trained in seeing systems, in particular in modelling the necessary recursion of embedded autonomous systems, and detecting control dilemmas in their relations. Most institutions were unclear about their systemic embedding, something that was reflected in the poor grasp of their identity. Equally, it was very uncommon to observe a good process of auditing, respecting the autonomy of the contained systems.

Second order auditing was aimed at detecting weaknesses in self-control and developing awareness in the CGR of the competence and sincerity of State institutions. For this purpose it was necessary to diagnose structural problems and to induce self-regulation within institutions and self-organisation within primary activities. The assumption was that the more effective these intrinsic controls were, the more likely good institutional performance and the less likely corruption was (see paper by Espejo, Bula and Zarama in this same issue). Its purpose was to induce relations between institutions in order to produce intrinsic checks and balances rather than relying on the traditional low variety approach of extrinsic control.

This auditing required producing a good structural model of the State: "Every good regulator of a system must be a model of that system" (Conant and Ashby, 1970). A model taking into account its intended recursive structure rather than the actual unfolding, which we knew was inadequate. Indeed, this model was a pre-requisite to support the second order auditing efforts of the CGR. Unless they had a good model of a desirable State they would have to rely on happenstance to succeed in focusing their regulatory efforts.

Contrary to the traditional view of auditing as an activity focused on detecting misdeeds, second order auditing is focused on enabling improved performance. In this framework, effective auditing implies more than creating the context to make fraudulent, illegal and corrupt behaviours less likely. Restricting auditing to this view would be missing the point that a major purpose of auditing is building up trust in the organisation. Therefore auditing is also seen as a mechanism to bridge the separate realities of a containing organisation and its contained primary activities. In this sense second order auditing was seen as a mechanism for Central Government, through its National Audit Office, to assess the competence and sincerity of the people representing the multiple State institutions. The assumption was that the more effective the organisational communications bridging institutional resources were, the more likely it was for people representing different primary activities to assess the competence and sincerity of those within them. And of course internal control was understood as building up responsible trust inside the primary activities. Auditors became responsible for building up entirely different relations with the audited institutions. From relations of confrontation they had to move to relations of collaboration and respect (see paper by Reyes in this same issue).

But, what does it mean to build up responsible trust? First of all, it means individual learning. Each individual auditor needs to learn how to build up responsible trust herself/himself. Secondly, it means to overcome structural fragmentation, that is, producing desirable organisational systems. Thirdly, it means seeing

primary activities and producing relations that strengthen their autonomous development. Fourthly, it requires producing conditions for effective negotiations between structural levels, respecting the autonomy of both the containing and contained primary activities.

The design of communicative actions, that is, the construction of responsible trust is at the heart of the new concept of control. In addition to reports, those representing the global and local levels need to understand each other at a more experiential level. For this they have to have sporadic access to each other, by-passing those managing their activities, and so that they can experience how people respond to environmental pressure in their moment-to-moment interactions. This communication and its meaning have to be publicly acknowledged to avoid suspicion and to make the real cost of building up trust apparent.

Aspects of the auditing included, as illustrated in other papers of this issue, working out the following points (Espejo, 1999):

- Identities of the relevant organisation and its primary activities
- Performance of the organisation and its primary activities
- Quality of their citizenship in their embedding organisations
- Cohesion of the organisation, in particular, detection of control dilemmas.

In the practice of auditing it was clear that hierarchical relations were the rule and that *control dilemmas* were the most likely form of experiencing relations between structural levels. These dilemmas were often responsible for relations based on suspicion and mistrust. And, the issue was whether these assessments were founded or unfounded (Bula, 1997). Hence our emphasis in second order auditing was on building up responsible trust. Furthermore we always saw this as a long-term process, far beyond the horizon of our project.

10. CONCLUSIONS

In summary, effective control is more likely to emerge in situations where interpersonal and inter-organisational relations are grounded in responsible trust. These relations require each of us to cross the boundaries of the others and to share independent realities. At an organisational level they require people from different organisations to cross the boundaries of those with whom they agree to build up tasks. This crossing of boundaries has been presented as the main mechanism for building up trust at the personal and organisational levels. Additionally it is an important mechanism to overcome social fragmentation and to produce organisations out of institutional resources.

We found in this distinction between institutions and organisations the need to go beyond traditional (first order) auditing into *second order auditing* or organisational auditing. First order auditing is generally based on an institutional, rather than a systemic, view of the State.

The National Audit Office of Colombian is beginning a process to support the development of self-controlled organisational systems. This is an alternative to the more common control based on inspections. But creating the conditions for self-control will require overcoming the inherent fragmentation of the State and developing organisational systems. This is a hugely complex long-term task and no one is under the illusion that it will deliver immediate results. This approach seeks to replace the behaviour of negation of others with the behaviour of acknowledging and respecting others individually and collectively. This is a tall order for a country that has suffered 50 years of violence and ever-increasing punitive controls. However a start has been made and the political will is behind it.

REFERENCES

- Ashkenas R., Ulrich D., Jick T., and Keer S. (1995). *The Boundaryless Organization*. Jossey-Bass Publishers, San Francisco.
- Beer, S. (1966). *Decision and Control*. Wiley, Chichester.
- Beer, S. (1979). *The Heart of Enterprise*. Wiley, Chichester.
- Bula, G. (1997). *Construcción de confianza, dilema de control y aprendizaje. Un enfoque sistémico*, Contraloría General de la República, Bogotá, Colombia.
- Conant, R. and Ashby, W.R. (1970). Every good regulator of a system must be a model of that system. *International Journal of System Science*, **1**, No2 pp. 89-97.
- Espejo, R. (1989). The Viable System Model Revisited. In: Espejo, R. and Harnden, R., (Eds). *The Viable System Model: Interpretations and Applications of Stafford Beer's VSM*. Wiley, Chichester.
- Espejo, R. (1999). Aspects of identity, cohesion, citizenship and performance in recursive organisations, In *Kybernetes*, **28** Number 6/7, 640-658.
- Habermas J. (1996). *Between Facts and Norms*. Polity Press. UK
- Hummels, H (1997). Trust in the Virtual Organization, In *Filosofie in Bedrijf*, Issue No 25, **7/2**, The Netherlands. 33-47.
- Luhmann, N. (1996). *Confianza*, Editorial Anthropos, Barcelona, Spain.