

**The role of ethical intelligence and organizational infrastructure in
organizational decision-making**

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Abstract

Ethics and corporate social responsibility have emerged as two of the most important organization management principles of the last 30 years. Despite the empirical relationship between high standards of ethical decision-making and organizational performance, the literature abounds with extraordinary examples of corporate irresponsibility which raises the question of 'why' this continues to be the case. Recently, interest in the question of 'how' an organization might implement strategies that support corporate social responsibility and effective and consistent ethical decision-making has emerged. This paper introduces the concept of 'ethical intelligence', and considers the role aspects of organizational infrastructure might play in building on ethical intelligence to support effective ethical and socially responsible decision-making processes.

Keywords: Ethical intelligence, ethical decision-making, unethical decision-making, corporate social responsibility, business ethics.

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Introduction

Over the last 20 years there have been a number of key events that have raised fundamental questions today about the way in which firms should operate if they are to achieve and sustain a competitive advantage. Events such as periodical fluctuations in economic conditions, recognition of the social and commercial consequences of climate change and pollution, and failure by many leading firms to engage in responsible ethical behaviour and fulfil expected social obligations, have dramatically changed perceptions about the appropriateness of many current business practices, and the way business should contribute to the society in which it operates. For many business commentators, positive change requires firms and business leaders to recognise the central role that business ethics, and the sense of responsibility that comes with the exercise of the managerial function, must play in the achievement of commercial objectives in a socially responsible manner.

In the light of empirical research indicating a significant and positive relationship between firms perceived to be ethically responsible and valuable business outcomes such as enhanced reputation, customer loyalty and sustainable profitability (Bhattacharya and Sen, 2004; Fombrun, 2005; Fulmer, 2004; Gardberg and Fombrun, 2006; Porter and Kramer, 2002), business ethics and corporate social responsibility have emerged as one of the most important organization management principles of the last 20 years (Clegg, Kornberger and Rhodes, 2007; Fitch, 1976; Wartick and Cochran, 1985; Zwetsloot, 2003). Despite this however, the literature abounds with extraordinary examples of corporate social irresponsibility, many with malice of forethought at their core (e.g. AOL/Time Warner, Enron/Arthur Anderson, General Electric, Lehman Brothers and WorldCom).

A common outcome for many of these scandals have been a calls to explain 'why' such events continue to occur in a business world that is supposedly more focused on social responsibility than ever before (Hood, 2003; Orme and Ashton, 2003; Wooten, 2008). A review of the literature suggests a number of key issues dominate the 'why' aspect of unethical business behaviour: an absence of organizational standards for ethical conduct (Campbell, 2006), a lack of ethics training and awareness (Henle, 2006), abdication of individual responsibility by employees (Bansal and Kandola, 2004), and an absence of government regulation and oversight (Lynch-Wood, Williamson and Jenkins, 2009).

A generic organizational response to the 'why' aspect has been an increased emphasis on the use of 'codes of ethics' and 'codes of conduct' aimed at regulating behaviour in the workplace. The emphasis on such codes is an understandably attractive option, as it represents a highly visible (and relatively inexpensive) method of espousing an organization's ethical standards to its stakeholders (Belland, 2008; Kaptein and Schwartz, 2007; Webley and Werner, 2008). However, whilst proponents of codes of ethics and conduct often cite the *prima facie* advantages of these guides to action (see Donker, Poff and Zahir, 2008; Johnson, 2008; Ponton and Duba, 2009), regrettably the process of constructing and implementing organizational codes of

ethics and conduct often demonstrates a lack of ethical intent (O'Brien, 2006; St James Ethics Centre, 2009).

Research in the business ethics literature suggests social responsibility in the business context stems not from the mere existence of codes of ethics and conduct, but rather from functional organizational cultures that have a strong ethical dimension (i.e. they are infused with ethical decision-making principles which underpin ethical leadership and followership behaviours) (Ciulla, 2009; Gardner, Avolio, and Luthans, 2005; Karakas, 2009). This ethical dimension of organizational culture is conceptualised in terms of an 'ethical climate' (Victor and Cullen, 1987), and refers to the extent to which perceptions, of what comprises ethically correct behaviour and how ethical issues should be handled, are shared across the organization. A large proportion of ethical climate research to date has sought to describe the statistical relationships between strong ethical climates and desired organizational outcomes (cf. Appelbaum, Deguire and Lay, 2005; Bulutlar and Oz, 2008; Leung, 2008; Parboteeah and Kapp, 2008; Vardi, 2001); aside from ethical codes of conduct, the type of organizational decision-making infrastructure (processes, systems, information, culture, leadership, etc.) required to support ethical leadership and followership behaviours that would characterise an ethically intelligent organization has however received little research attention.

The problems organizations confront in developing effective codes of ethics and conduct and strong ethical climates raise the fundamental question of 'how' organizations might actually go about increasing their level of 'ethical intelligence' (i.e. the resources and capability, what we call here infrastructure, for developing an enduring commitment to ethical decision-making and conduct in the interests of the organization that goes beyond mere compliance with organizational codes) (Bartlett, 2003; Norberg, 2009; Yaeger and Sorensen, 2006). Consequently, this paper will address the question of 'how' an organization might become 'ethically intelligent'. To do so, firstly we describe the idea of 'ethical intelligence', followed by a description of the type of infrastructure an organization might need to develop in order to support it. Lastly, we consider the implications for organizations wishing to develop the infrastructure needed to become 'ethically intelligent' across all functions and at all levels of operation.

Ethical intelligence

Ethical decision-making competency is a well-tilled and tended field of study (see Ford and Richardson, 1994; Loe, Ferrell and Mansfield, 2000; O'Fallon and Butterfield, 2005; Sparks and Pan, 2009). A range of concepts, such as moral intensity (Jones, 1991), ethical ideology (Barnett, Bass and Brown, 1994), ethical judgement (Barnett, Bass, Brown and Hebert, 1998), ethical perception and sensitivity (Wittmer, 2000), have been explored. Rational decision-making models have also been investigated extensively, starting with perhaps the most well-known models proposed by Rest (1986) and Trevino (1986). One concept of particular interest in this paper is the idea that an individual's level of moral development (Kohlberg, 1984) or 'ethical maturity' – in essence the individual's capacity to recognise the existence of a problem and the nature of the ethical issues that surround it – is a fundamental component of an individual's decision-making effectiveness (Lincoln and Holmes, 2008; Roozen, De Pelsmacker and Bostyn, 2001). McDevitt, Giapponi and Tromley

(2007) provide a summary of what determines an individual's level of ethical maturity, which includes *inter alia* such factors such as age, experience, emotional stability and level of moral development.

In common with many of the other theoretical constructs that have been explored, 'ethical maturity' emphasises the cognitive processes of ethical decision-making. However, a large body of research into decision-making generally, and ethical decision-making specifically (see for example, Caswell and Gould, 2008; Manley, Benavidez and Dunn, 2007), has identified a significant and positive relationship between the demonstration of competency in decision-making, an individual's level of ethical maturity, and three types of intelligence – cognitive (Bos and Willmott, 2001; Gardner, 1999), emotional (Goleman, 1995; Holian, 2006; Salovey and Mayer, 1990), and social (Albrecht, 2006; Goleman, 2006). There is no published research to date which has explored in detail the possibility of a theoretical construct, which we shall call 'ethical intelligence', which synthesises the cognitive, emotional, and social types of intelligence with 'ethical maturity'. In the absence of an established construct, we propose 'ethical intelligence' to be a form of individual intelligence which comprises the range of cognitive, emotional, social and ethical skills, knowledge and abilities, through the application of which individuals are able to independently generate ethical decisions, and reflect on and learn from their actions to improve their decision-making performance. Using this definition, we will now consider how an organization might build on the ethical intelligence of its individual employees to behave itself in an ethically intelligent way.

Ethically intelligent organizations

It is well established in the human resource literature that an organization's 'human capital' (i.e. the sum total of employee knowledge, skills and abilities available to the organization) if properly nurtured and deployed, can serve as the basis for a sustainable competitive advantage (Lepak and Snell, 1999). The capacity of an organization to harness its human capital and improve its performance against expected standards has been conceptualised in general terms as 'organizational intelligence' (OI) (Albrecht, 2002, 2003; Kerfoot, 2003; Stalinski, 2004; Yolles, 2005). Albrecht's (2002) definition represents the concept of OI as the capacity of an organization to mobilise its human capital or 'brain power' and focus it on the achievement of strategic goals. In other words, OI is the collective capacity of an organization's employees to gauge the fit between the organization and its external environment.

There have been numerous studies considering a range of intelligence 'types' an organization might wish to develop in order to make better sense of the world around it (see Kerfoot, 2003; Stalinski, 2004). Some such studies, for example, identify OI as including the methods by which organizations monitor and communicate information about such disparate things as 'customer preferences', 'employee emotions', 'competitor strategy', 'market evolution', 'technological advancement', 'products' and the 'impact on the natural environment' throughout the organization (Dulewicz and Higgs, 2003; Hannula and Pirttimaki, 2003). However this research, both empirical and theoretical, has to date been largely silent on the possibility of 'ethical intelligence' contributing to OI. Given the lack of real academic interest in this aspect of OI, we must therefore look to the practitioner arena, where its relevance has been widely explored in the workplace setting by specialist business consultancy

organizations, for insights into how ethical intelligence might be used to boost organizational performance.

One such organization is the Unicist Research Institute (URI), a global consulting organization focused on the development of ontology-based, diagnostic and strategy-building technologies for social, institutional, individual and business applications (Unicist Research Institute, 2009). Focusing on mental mechanisms that construct ‘the “rules of the game” to approach reality’ and ‘to make the interaction between environment and individual functional’ (Unicist Research Institute, 2009: 1), the URI presents a Kohlberg-like model of ethical intelligence that distinguishes between stages of development in an individual’s capacity to respond to ethical dilemmas in an organizational context. The most important contribution of the URI model, to understanding how ethical intelligence links to organizational performance, derives from the way it links the individual to the organization by identifying ethical intelligence as having two contributing components: (i) the individual’s level of ethical decision-making maturity and (ii) access to organizational resources and capabilities. The model indicates the more an individual has of each, the greater the emphasis will be on resolving ethical dilemmas whilst honouring a duty to others.

Given the existence of individual differences, the ability and/or willingness of individuals to demonstrate an ethical decision-making competency will inevitably vary; thus, an ethically intelligent organization will need to develop human resource management (HRM) systems and processes that measure an individual’s ethical intelligence (Demuijnck, 2009). For example, in recruitment and selection, clearly organizations need to be able, through their documentation and processes (e.g. position descriptions, advertisements, selection criteria, interviews, work simulations, etc.), to attract ethically intelligent individuals. This in turn requires organizations to adopt job design and analysis processes that consider what ethical issues associate with specific organizational roles and to ensure these are clearly defined. Such processes should lead to the generation of position descriptions that incorporate ethical behaviour as a core work requirement, as well as support recruitment and selection by specifying selection criteria that identify the essential skills, abilities and knowledge necessary for an individual to perform the work effectively. Ethically-infused selection criteria could also feed into the design of training and development activities and the establishment of norms and standards that underpin an organization’s performance management processes.

Whilst it may appear logical that ethical implementation practices should follow from high levels of ethical intelligence in an organization’s human capital, research indicates a disconnection between the two is likely where organizational systems and processes are not in place to reinforce or motivate behaviour (Andreoli and Lefkowitz, 2009; Mitchell et al., 1996; Vickers 2005). An implication here is that the ethically intelligent organization must not only build the individual’s capability to commit fully to its ethics standards and the philosophies that underpin them, but also develop an organizational culture that affords individuals the opportunity to learn from ethical errors and ‘near misses’ that may occur across the organization.

Of course, in a perfect world, the combination of ethically intelligent employees and organizational infrastructure would be sufficient to prevent instances of ignorant and/or deliberate unethical decision-making. However, research into the causes of

unethical decisions highlights the role of ‘human error’ in the decision-making process (Anfield, 2007; DeJoy, 1990; Haight, 2003; Rose, 2007). In order to understand its dysfunctional consequences in the workplace, Hansen (2006) broadly defined ‘human error’ as a voluntary action performed by a human being, which occurs at the interface between the human and another system (human, machine, or environment), and which exceeds tolerance limits set by the organization. This definition reinforces the connection between the human element and the role that organizational systems and processes play in ethical decision-making, but highlights the role the interaction can play in the creation of human error leading to unethical outcomes.

We know that the human element comprises a range of cognitive and affective characteristics that define what it means to be human. Business experience suggests that the deleterious effects of these characteristics in the context of ethical decision-making can be mitigated and minimised by infrastructure that facilitates the interaction between individuals and the organization’s systems and processes. For example, in safety critical industries where simple human error can often cost lives and billions of dollars in damages, Anfield (2007) demonstrates how considerable organizational effort has resulted in multilayered, preventative measures aimed at identifying and eliminating all foreseeable circumstances that might lead to unethical behaviour as a consequence of human error.

Successful management of human error will be dependent on the extent to which inquiry, reflection and feedback, trust between employees and managers, individual and group learning, and positive behavioural change are accepted and supported as norms within the organization. For these conditions to operate requires a commitment by organizational leaders to the development of a shared understanding of ethical principles and a common language for communicating those principles within the organization and to all stakeholders. This learning should not be limited to human error that leads to negative outcomes such as financial losses for the organization; it is equally important for organizations to demonstrate that errors of ethical judgement that result in desirable outcomes, such as short-term profit increases, must be learnt from and avoided in the future. In addition, provision of support by the organization’s leaders, rather than overseeing allocation of blame to erring individuals, is fundamental to the promotion of employee commitment to, over mere compliance with, ethical decision-making processes. It is thus incumbent on organizational leaders that they behave ethically and consistently, that they actively build trust, and accept as their duty the responsibility to address openly all instances of unethical decisions and actions (Amy, 2008; Tseng and McClean, 2008).

To summarise the discussion to this point then, we suggest that ethical intelligent individuals and organizations can be identified by several key attributes (see Table 1).

INSERT TABLE 1 HERE

At the individual level, the key attributes include:

- Social intelligence – i.e. the interpersonal skills, knowledge and abilities needed to interpret and understand different social situations and be oneself in social interactions, and to understand social roles and norms and act in accord

with them in the establishment and maintenance of effective interpersonal relationships (Albrecht, 2006; Goleman, 2006);

- Emotional intelligence – i.e. the intrapersonal skills, knowledge and abilities needed to interpret, understand, manage and regulate our own emotions as they occur, and to sense the emotions of others and respond to them in a functional way (Goleman, 1995; Salovey and Mayer, 1990)
- Cognitive intelligence – i.e. the intellectual capacity of the individual to access, process, and interpret information in a purposeful, systematic and rational manner, and to utilise that information to adapt effectively to the environment (Gardner, 1999); and,
- Ethical maturity – i.e. the highest level of moral development at which an individual is capable of autonomous moral reasoning using abstract universal principles, such as human rights and justice, to determine what is ethical (Kohlberg, 1984).

At the level of the organization, the key attributes include:

- An ethically infused organizational infrastructure – i.e. systems, processes and practices that ensure ethical considerations form an inherent and fundamental element in the organization's decision-making criteria at all levels and across all functions;
- HRM strategies, policies and procedures that are focused on attracting, developing and retaining ethically intelligent employees, and which positively reinforce a willingness to behave ethically and assume responsibility for the social and environmental consequences of their activities; and,
- An ethical climate which expresses those organization's policies, procedures and practices, both formal and informal, that have moral consequences, and so determine the moral criteria that both managers and employees use to understand, weigh, and make judgements regarding right behaviour within an organization (Martin and Cullen, 2006).

An ethically intelligent organization will create infrastructure that serves to do more than simply describe the ethical decision-making criteria to which it expects its individuals to conform. It will also provide an explanation of the rationale for, as well as model and positively reinforce ethical decision-making in ways that minimise and learn from 'human error'. Importantly, if an organization is serious about upholding its social responsibilities over the long-term, it must adopt an organization-wide perspective. At the same time, it must create an HRM capability that is itself ethically infused if it is to attract, retain and motivate ethically intelligent individuals. Success in developing this capability hinges on the organization's capacity and willingness not only to resource the systems and processes adequately, but also to instil an authentic long-term view into its HRM capability, and to recognise meeting its social responsibilities as a necessary condition for profitability and organizational success (Mackavey, 2006).

Conclusion

In this paper, we set out to address what we believe is an under-explored but nevertheless important question: how a firm might become 'ethically intelligent' through developing its organizational infrastructure and infusing ethical principles into its decision-making and actions across the entire organization. In terms of a contribution to theoretical debate, this paper presents several issues for consideration.

In relation to an organization's human capital, we have sketched out the idea of 'ethical intelligence' as an individual attribute. We suggest that the idea of ethical intelligence should be conceptualised more broadly than just ethical maturity to include, in addition, the cognitive, social and emotional intelligence types that also affect decision-making and behaviour. We believe that, like other skills, knowledge and abilities, ethical intelligence can be a focus of learning and development interventions by the organization that can enhance individual, group and organizational performance. We hope this paper will serve as a catalyst for further discussion and examination of the concept aimed at defining the concept of ethical intelligence as an individual attribute more fully, including: (i) how the concept might be operationalised at the individual level using valid and reliable measures for its assessment; and, (ii) considering whether ethical intelligence might also be conceptualised as a group-level construct (i.e. whether groups have a level of ethical intelligence that is greater than the sum of the ethical intelligence of individual group members). The possible expansion of the OI typology to incorporate a properly defined ethical intelligence type also offers another potentially fruitful topic of research interest.

We have discussed how a firm might develop and use its infrastructure to support and enhance the ethical intelligence dimension of its human capital and underpin ethical leadership and followership behaviours at all levels and across all its functions. Future research is needed that explores the relationship between ethical intelligence, organizational infrastructure and valued organizational performance outcomes such as profitability, market share and reputation. From a strategic perspective, a specific question of interest here might be whether the integrated use of ethical intelligence and other organizational resources to create ethically intelligent infrastructure provides a basis for a core competency from which a firm might derive a competitive advantage. We suggest that such integration offers firms a possible way of bridging the gap between common organizational behaviours that simply aimed at compliance with legal requirements, which at best is likely to produce only competitive parity, and those less common ethically-based behaviours that might underpin the potential competitive advantage a firm might derive in the market from achieving its commercial objectives in a socially responsible manner.

The discussion in this paper also has implications at the practitioner level. For example, there are resource issues and costs associated with the development of organizational infrastructure that directly develops and supports ethical decision-making throughout the firm. A focus on organization-wide systems, policies and processes that support, reward and communicate ethical principles and behaviours across all levels and functions, rather than just the traditional focus on HRM, requires the firm to undertake a comprehensive organizational infrastructure audit. A comprehensive audit task in itself would require resources, but in addition it may also result in the subsequent need to invest in process re-engineering and implementation of change. Added to the cost of these investments, the return on which may occur over the long-term, may be the need to bear negative short term impacts on profitability or market share that arise from the rejection of unethical business practices and behaviours.

In summary, we suggest that understanding how the ethical intelligence of a firm's employees can be combined with ethically infused organizational infrastructure is key to a firm achieving the integration its social responsibilities with its commercial objectives, whilst avoiding the unfortunate and potentially survival-threatening consequences of situations where 'good people end up doing bad things' in business.

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Table 1: Key attributes of Ethical Intelligence

<i>Key Attributes of Ethically Intelligent Employees</i>	<i>Key Attributes of Ethically Intelligent Organizations</i>
<ol style="list-style-type: none">1. Social intelligence2. Emotional intelligence3. Cognitive intelligence4. Ethical maturity	<ol style="list-style-type: none">1. Ethically infused organizational infrastructure2. HRM focussed on attracting, developing and retaining ethically intelligent ‘employees of choice’3. Ethical climate that positively shapes and reinforces ethical managerial and employee behaviour