Sustainable innovation as positive organizational outcome of practising organizational ethics

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Impact of organizational ethics on transformation of organizational innovativeness to sustainable innovations
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Acknowledgements

Background: witnessed reality and network

- Global economic crisis in 2008 - ignoring ethical values and principles of sustainable development in business can have significant negative consequences to national economies and global development.
- Innovation and innovativeness politically declared as priority to enhance development of national economies.
- Organisational innovativeness identified as a key element in innovation development (Wang and Ahmed, 2004; Yu et al., 2013), organisational performance (Cho and Pucik, 2005), and regional competitiveness (Broekel and Brenner, 2011).
- Cooperation with University of Jyväskylä on organizational trust, employee well-being and organizational innovativeness.

Background 2: prior studies

- **Organisational culture** is an important condition for organisational innovativeness (Martins and Terblance, 2003; Sarros et al., 2008): "[b]y now, it is common sense that organisational culture is a key to innovation success" (Büschgens et al., 2013: 763-4).
- **Ethical values** such as honesty, fairness, integrity, justice, (mutual) respect, solidarity, tolerance etc. which are embedded in organizational culture and make effect on employees attitudes and behaviour are important to innovativeness *yet empirical data on the relationship are scarce*.

Background 2: prior studies (2)

➢Global innovation index 2014 subtitle: *The Human Factor: The Fundamental Driver of Innovation.*

➢Relationships between leaders and employees as well as **values such as trust and acknowledgement promoted through leadership** are the glue to a social fabric of an organization and its systems/culture, which helps to achieve positive employee and organizational outcomes:

- employee willingness to accept change,
- well-being in the workplace,
- organizational citizenship behaviour,
- satisfaction and commitment (Alimo-Metcalfe et al., 2008; Cadwallader & Busch, 2008; Gerstner and Day, 1997; Podsakoff et al., 1990),
- **favourable environment**, **empowering and motivating employees** for different kinds of **innovation** (Denti and Hemlin, 2012; Fernandez and Moldogaziev, 2013; Tierney and Farmer, 2002; Yukl, 2006).

Background 2: prior studies (3)

- Most studies concentrate on leader's as an individual's influence on the outcomes, and leadership as a relational phenomenon has received far less attention (Uhl-Bien, 2006).
- The relationship between leadership and organizational innovativeness as a capacity that can result in innovation has been little empirically studied.
- Moreover, **cultural context** for studying these relationships has received little attention in the related literature.

Aims and objectives of the project

- The **aim** is to explore **how organizational ethics can make impact** on the transformation of organizational innovativeness into sustainable innovations.
- Objectives:
1) to explore the impact of organizational ethics on organizational innovativeness and
2) the impact of the interrelation between organizational ethics and organizational innovativeness on development of sustainable innovation.

Activities / Work packages

1. analyse the relations between organizational ethics (ethical leadership, ethical organizational culture) and organizational innovativeness in Lithuania and
2. compare the national research data to the ones in Finland.
3. conduct descriptive research on sustainable innovations,
4. explore the impact of the interrelation between organizational ethics and organizational innovativeness on sustainable innovation,
5. disseminate the results in international conferences and publications.

Research questions

- Do ethical values of organization as embedded in the formal (e.g. ethics management) and informal systems (e.g. leadership, HRM) affect organizational innovativeness and, if so, how?
- Can organizational trust enhance the effect of ethical organizational culture and leadership on organizational innovativeness?
- Does organizational innovativeness result in sustainable innovations and, if so, how?
- What characteristics of sustainable innovations can be distinguished in a post-soviet context such as Lithuania?
- What is the role of moral emotions in developing sustainable innovation?

Concepts (1)

Sustainable innovation is development and commercialization of new markets, products, services and processes as well as creation of business models that *help to solve social-ethical, environmental and economic problems with the aim to benefit societies and the planet* (Blok and Lemmens, 2015; Halme and Korpela, 2014).

Concepts (2)

- **Organizational innovativeness** is organizational capability to generate new ideas, experiment and engage in creative processes. Distinguished into:
1) product, 2) market, 3) process, 4) behaviour and 5) strategy innovativeness (Wang and Ahmed, 2004).
- It can be transformed into innovations with **purposeful organizational attempts** or, because of **properly constructed** processes, can transform itself into them.

Distinctions between innovativeness, creativity and innovation

- Innovativeness as a **capability** to generate new ideas, engage in new processes, develop new products and reach new markets is a precondition for innovation (Walsh et al., 2009).
- Creativity can be used synonymously even with innovation (Basadur, 2004; Csikszentmihalyi, 1999), but some scholars relate it just to one stage of innovation development, e.g. idea generation.
- Innovation as an outcome of practising innovativeness. However, when it comes to sustainable/ responsible innovation, it can denote both the process and the outcome.

Ethical risks of organizational innovativeness

- Left by itself organizational innovativeness does not necessarily result in benefits to the society or organization.
- Innovation development with high risk taking and fast decision making may prompt individuals to behave in an innovative yet unethical way, e.g. break rules, engage in unfair competition, take high risks at the cost of others (Baucus et al., 2008).
- In particular, if an organization has corrupt culture and its leaders behave unethically (Satava et al., 2006; Sims and Brinkmann, 2003).

- Hence, attention to organizational ethics is needed. In particular, in post-soviet societies.
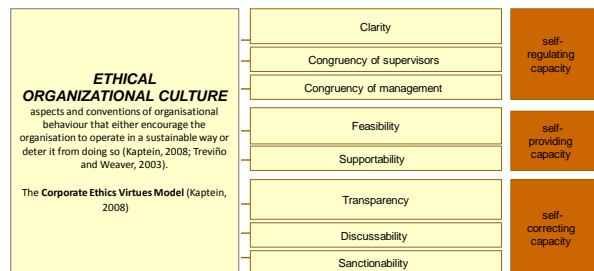
Concepts (3)

- **Organizational ethics** consists of instruments (e.g. ethics code, committee, training, auditing etc.) and processes of values management, networks and combinations of ethical principles, social structural functions, functional interactions, sets of social roles that are meant to meet society's needs with social responsibility and fairness (Wieland, 2003; Vasiljevienè, 2006).
- In particular, organizational ethics can be perceived through ethical leadership and ethical organizational culture.
- Employees perceptions of organizational systems and leadership as fair, trustworthy may enhance employees' motivation to behave in a civic way and, thus, consider stakeholders' interests and expectations and practice innovativeness to produce sustainable innovation (Maimone and Sinclair, 2010; Riivari et al., 2012; Russel and Griffiths, 2008).

Concepts (4)

- **Organisational culture is regarded** as a combination of *formal* structures, systems, and organisational practices and *informal*, unspoken, taken-for-granted assumptions, norms and behaviour modes that may go unreflected in organisational life (Trevinõ et al., 1998; Schein, 1990).
- **Ethical organisational culture** is constituted by *ethics management* systems with particular tools such as ethics codes, ethics training and ethics auditing etc., *leadership* and *human resource management* practices, and the informal one of assumptions, beliefs, values, behaviour norms, role models and stories that are ethically loaded (Huhtala et al., 2013; Kaptein, 2010; Trevinõ et al., 1998).

Concepts (4-1)

ETHICAL ORGANIZATIONAL CULTURE		
	Clarity	self-regulating capacity
	Congruency of supervisors	
	Congruency of management	
	Feasibility	self-providing capacity
	Supportability	
	Transparency	self-correcting capacity
	Discussability	
	Sanctionability	

ETHICAL ORGANIZATIONAL CULTURE aspects and conventions of organisational behaviour that either encourage the organisation to operate in a sustainable way or deter it from doing so (Kaptein, 2008; Treviño and Weaver, 2003).
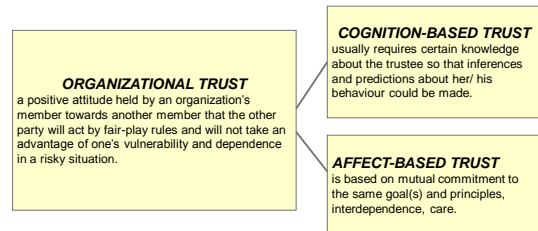
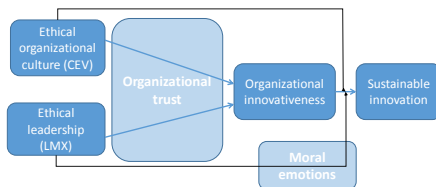The **Corporate Ethics Virtues Model** (Kaptein, 2008)

Concepts (5)

- **Leadership as a relational construct** between leader and followers, with a two-way influence (Graen and Uhl-Bien, 1995).
- **Leader-member exchange theory** rests on social exchange (Wayne & Green, 1993; Erdogan & Liden, 2006) and role theories (Dienesch and Liden, 1986; Graen and Scandura, 1987) and maintains that:
- Interrelations between leader and followers may differ depending on the quality of the relationship which rests on **the competences/ proper accomplishment of social roles**.
- **High LMX** is described by loyalty, respect, high trust and liking between leader and followers**.**
- **Low LMX** - by following employment contract, managing by autocratic methods and low trust between the parties (Anand et al., 2011).
- LMX is regarded as a **type of ethical leadership** (Hansen, 2011) because of characteristics of high LMX such as reciprocity, respect, empowering followers.

Concepts (6)

ORGANIZATIONAL TRUST
a positive attitude held by an organization's member towards another member that the other party will act by fair-play rules and will not take an advantage of one's vulnerability and dependence in a risky situation.

COGNITION-BASED TRUST
usually requires certain knowledge about the trustee so that inferences and predictions about her/ his behaviour could be made.

AFFECT-BASED TRUST
is based on mutual commitment to the same goal(s) and principles, interdependence, care.

Framework

Ethical organizational culture (CEV)

Ethical leadership (LMX)

Organizational trust

Organizational innovativeness

Sustainable innovation

Moral emotions

Theoretical reasoning

- **Social identity perspective**: constructing social, group and role > personal identity through interactions (Ashforth and Mael, 1989; Bandura, 1971). Values at the core of numerous identities of a person (Hitlin, 2003).
- **Organization-person fit and value congruence** (Chatman, 1989; O'Reilly et al., 1991): if personal and organizational values are congruent, an employee's motivation to identify with the group, department or organization she works for increases (Ellemers et al., 2013).
- **Positive moral emotions**: the feeling of achievement and acting in accordance with responsibilities results in employees experiencing respect to and pride in the organization and oneself (Malti and Latzko, 2012), leading to cooperative behaviour and creation of communities of practice (Brown and Deguid, 1991), which results in organizational innovativeness.
- Ethical leadership may incite positive moral emotions through respectful reciprocal relationships

Methodologies. Stage 1

- Sample: public (1, n=757) and private organizations (n=6, n=316) in Lithuania (2013-2014). Compared to data in Finland (2011) and China (2012).
- Sample 2: enriching the data with the data in cultural organizations (2014, museums and theatres) as potentially high or low innovativeness organizations.
- **Method**: electronic and paper survey.
- **Measurement** instruments:
- ➤ Organizational innovativeness (Wang and Ahmed, 2008): 20 items, 1-7 Likert scale;
- ➤ Ethical organizational culture (Kaptein, 2008): 58 items, 1-6 Likert scale;
- ➤ LMX (Graen and Uhl-Bien, 1995): 7 items, 1-5 Likert scale;
- ➤ Organizational trust (McAllister, 1995): 11 items, 1-7 Likert scale;
- ➤ Sociodemographic questions.

Methodologies. Stage 2

- Qualitative research:
- ❖ **Interviews** with managers and employees in 2 surveyed companies (n=9) for deeper knowledge of understanding the phenomena and the relationships between them.
- ❖ Pilot **interviews** with social entrepreneurs (n=5).
- ❖ Action research in 1 company.
- Small (n=22), high innovativeness sector (high-tech, IT, creative industries).
- Method: action research
- Aim: strengthening employees' awareness of organizational values and their impact on social and environmental aspects.
- Research in progress.

Findings 1: impact of CEV on organizational innovativeness

- In **public** sector it is **behavior INN** which is most strongly affected by ethical organizational culture (clarity, transparency and discussability). In **private** sector it is **product INN**.
- **Both in public** and **private** sector **clarity** and **discussability** are the values which affect several types of INN (all types in private organizations and all but behavior INN in the public organization).
- **Congruency of management** is influential in public sector organizations. In particular, when the data from the public organization is merged with budgetary cultural organizations.

Findings 2: impact of leadership relationships on organizational innovativeness (public sector)

- The impact of leadership relationships on organizational INN is weak (adj. R2=0.3 B=0.538).
- The strongest effect was found on **behavior** and **strategy** INN in the public organization and behavior and market INN in private sector organizations.
- The relational dimensions which affect organizational INN are **trust** from supervisor, employee's **reliance** on him/her to be treated as a partner and **feedback** giving in **the public sector** organization.
- In private organizations, **feedback** giving is important, however, beside it people need **help** (by using power) from supervisor when dealing with problems and **relationships** with leaders which they perceive as **effective**.

Findings 3: Sustainable innovations

- Organizational contexts marked by trust, sharing and the idea of meaningful activity that they carry out demonstrated characteristics of being able to create sustainable innovations.
- „Mano guru" and „Talent Garden". Business solutions/ model/ approach addressing social issues:
  - ➤ Partnership between different entities; rehabilitation of ex-drug addicts and integration to social life; public health (clients); secure environment/ lower crime rate; better image of the city; profits.
  - ➤ Partnership between freelancers; co-working, sharing, exchanging; change to the city; deterring emigration of artists, creative industry professionals; profits.
  - • "Kavos bankas": doing business as usual by employing socially disadvantaged/ disabled; exclusive rights to a coffee plantation in Brazil and "peaceful conscience that people are treated well"; eco-, quality management certification, aspiring to get an "EU leaf", using clean technology in their production; educating the society about variety of coffee. Integrated approach without being aware that they can be classified as sustainable enterprise overall.

Implications

- The importance of **clarity** speaks of the importance of formal ethics management tools, in particular, ethics codes and supportive documents for proper behavior at work.
- **Discussability** virtue may be considered as supportive of clarity: providing opportunities to raise ethical issues and discuss them in a constructive way can enhance organizational INN.
- **Congruency of management** in public organizations imply that there may be institutional challenges for the employees to direct their thinking towards the organization's needs and manager's role model is used as an argument for behaving or thinking in an innovative way. On the other hand, INN in public organizations unescapably depends on decrees of top management (e.g. ministers, state policy).

Research ahead: social enterprises

- Social enterprises and social entrepreneurs as change agents of the society.
- According to Huysentruyt (2014) ("Women's Social Entrepreneurship and Innovation", *OECD, WP),* social enterprises outperform traditional enterprises by the number of radical innovations, in particular, in private sector.
- They have been found to be more sensitive - and responsive - to social market needs.
- They aim to widen access to services, like education, health, financial and legal services; trigger positive behavioral change, like recycling or healthy behaviors; redress market failures – like climate change.
- In particular, this is the field for exploring gender: as social enterprises act in developing markets, competition is less fierce, therefore, women are more apt to engage in these activities.

Research ahead: positive moral emotions and organizational innovativeness

- Positive organizational scholarship (Cameron, Dutton and Quinn, 2003; Fredrickson, 2003) and positive org. behaviour literature (Bakker and Demerouti, 2008): **positive emotions account for higher levels of creativity**, e.g.
  - ➤ happy people are more sensitive to opportunities at work, more outgoing and helpful to others (Cropanzano and Wright, 2001);
  - ➤ **joy** urges to play, push the limits and be creative not only in social and physical, but also intellectual and artistic behaviour;
  - ➤ **pride** motivates to share news of the personal achievements and envision new ones in the future etc. (Fredrickson, 2003: 166);
  - ➤ **Emotional organizational pride** has a direct, positive effect on commitment to customer service and creativity (Gouthier and Miriam, 2011).

Our interviewees were asked about situations in which they experienced pride and these were related to team accomplishments, meaningful work they carry out and contribution to the society as well as word keeping.

Thank you for your attention!