ABSTRACT. While organizational learning literature has generated significant insight into the effective and efficient achievement of organizational goals as well as to the modus of learning, it is currently unable to describe moral learning processes in organizations consistently. Corporations need to learn morally if they want to deal effectively with stakeholders criticizing their conduct. Nongovernmental organizations do not ask corporations to be more effective or efficient in what they do, but to become more responsible or to learn morally. Current research on the moral aspect of organizational learning has been primarily of a theoretical nature and is in need of empirical verification. Results of a longitudinal case study as Citigroup’s conflict with the Rainforest Action Network show that current organizational moral learning theories do not fit the moral learning path observed at Citigroup. More empirical research is needed to describe organizational moral learning.

KEY WORDS: conflict, crisis, Kohlberg, legitimacy, moral learning, organizational development, organizational learning

Introduction

Organizational theory is struggling to integrate a sociopolitical or moral perspective (Berthoin Antal et al., 2001; Walsh et al., 2006). Most of the research to date centres on questions of organizational efficiency and effectiveness (Pawlowsky, 2001) or the modus of organizational learning (Argyris, 1990; Argyris and Schön, 1996; Holmqvist, 2004; Senge, 2006). Only a limited amount of researchers tried to formulate organizational learning in the moral sphere (Logsdon and Yuthas, 1997; Reidenbach and Robin, 1991; Snell, 2000; Srithar and Camburn, 1993). Most of their contributions on organizational moral learning are of a theoretical nature and do not explain real-life moral learning processes within and between organizations.

There is an increasing practical need to describe organizational moral learning. In today’s globalized world, corporations are faced with increasing expectations towards their conduct, not only from financial analysts but also from other parts of society. Criticisms from nongovernmental organizations (NGOs) do not ask organizations to become more efficient or effective but to become more responsible (Falkenberg, 2004; Zadek, 2004).

The article is organized as follows. It begins by outlining the dual nature of organizations and argues that, while organizational learning regarding efficiency and effectiveness is well developed, there is a need for more theory describing organizational moral learning. A review of existing research on organizational moral learning reveals a lack of empirical evidence on learning processes within and between organizations. To supply the missing link and to evaluate the usefulness of existing theory, a longitudinal case study regarding the project finance practices of Citigroup is explored. Results show that current theories do not fit the moral learning path observed at Citigroup and that more empirical research is needed to describe organizational moral learning processes.

Organizational learning and the dual nature of organizations

This paper follows a social-constructivist perspective on organizations (Berger and Luckmann, 1966; Weick, 1979), which are understood not as material
entities but as organizing processes. Members of the organization have to continuously make sense of their conduct in order to organize and coordinate tasks (Weick, 1979). The central organizing principle is the ongoing reproduction of a commonly shared reality by routines and standards. The organization changes if, for example, routines are canceled or new standards are introduced. Building on this basic learning mechanism, two aspects of organizational learning become important: (1) The objective of learning or what has to be learnt, and (2) the modus of learning or how something is learnt. With regard to learning objectives, the theory of organizational learning has focused on achieving organizational goals by addressing questions of efficiency and efficacy (Argyris and Schön, 1978; March and Simon, 1959; Pawlowsky, 2001). Research on the modus of organizational learning distinguishes a first-, second- and third-order learning modus (Argyris and Schön, 1978, 1996; Bateson, 1972; Senge, 2006). First-order learning has been defined as single-loop learning and describes the establishing of routines by which an organization deals with repetitive tasks. Second-order learning has been defined as double-loop learning where the objectives of organizational routines are questioned and eventually adapted. An example for this is given by Easterby-Smith and Lyles (2003, p. 51) as they compare single-loop learning with stabilizing the speed of a car at 60 mph. When conditions change, a reflection on the desired level of performance is triggered and speed might be adapted to 30 mph. This learning to adapt performance to changing conditions is defined as double-loop learning. Single- and double-loop learning are restricted by fixed assumptions on the objectives to choose and the reasons for which they make sense. If learning includes a reflection on sense-making (Weick, 1979) (e.g., the question of whether driving to this destination makes sense at all), the organization is challenged to change core value assumptions and its specific worldview (Rothman and Friedman, 2001; Senge, 2006). This transformational learning modus has been characterized as ‘deutero learning’ (Argyris, 1977; Argyris and Schön, 1996) or ‘experiential learning’ (Holmqvist, 2004; Kolb, 1984; Kolb and Fry, 1975).

Today, organizations do not only have to learn to become more efficient in achieving their goals, but they also have to learn how to deal with critical voices from society (Scherer and Palazzo, 2007). Transnational companies especially have to learn how to communicate better with critical stakeholders and adapt their behaviour towards them. International NGOs represent the most critical stakeholders and have grown in numbers from 31,246 in 1990 to 37,281 by the year 2000 (United Nations, 2002). These NGOs increasingly scrutinize and impact corporate conduct as in the case of Shell with the Brent Spar crisis (Holzer, 2001; Livesey, 2001), Nike with child labor (Zadek, 2004), Nestle with infant formulas (Sethi, 1994) or De Beers with conflict diamonds (Sethi and Williams, 2000). These events demonstrate the practical need for organizational moral learning, which has repercussions on media coverage, corporate reputation, relationship with stakeholders, and duration as well as intensity of the crisis. Successful learners minimize the negative aspects, reach a common understanding with their critics, and adapt communication and corporate conduct quickly. De Beers could be considered a case in point. Less successful companies deal with reputational issues over a long period of time and never harmonize worldviews with their critics, as the experiences of Nestle with its infant formula suggests.

The corporate crisis caused by NGO critique, however, is not related to the issue of reaching organizational goals efficiently, but to the legitimacy of corporate conduct before the public. Habermas characterizes similar events as a legitimacy crisis (Habermas, 1975; see also Scherer et al., 2006) which triggers organizational moral learning (Sridhar and Camburn, 1993). Departing from a social-constructivist point of view, a legitimacy crisis in turn triggers sense-making processes. Especially in the context of NGO critique, different worldviews are in conflict, and a crisis can only be resolved by aligning worldviews in a process of cooperative interorganizational sense-making (Weick, 1988).

While reflective learning processes definitely help corporations to learn morally from the critique voiced by NGOs, the theory of organizational learning, however, is currently unable to answer consistently how learning processes take place in the moral sphere. Accordingly, Dierkes et al. write in their final chapter of the Oxford Handbook on Organizational Learning and Knowledge (Berthoin