

Artificial Intelligence and Ethical Transformation in the Organization

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Abstract- Artificial intelligence (AI) is reshaping organizational processes, decision-making, and workforce dynamics. While AI enhances efficiency and innovation, it introduces ethical challenges related to bias, transparency, accountability, and privacy. This paper examines how AI drives ethical transformation in the organizations, drawing on stakeholder's theory, virtue ethics, and regulatory frameworks. Using a conceptual and integrative approach, the paper argues that organizations must shift from reactive compliance to proactive, ethics by design to build trust and legitimacy. The findings indicate that ethical AI governance enhances stakeholders trust, reduces legal risk, and supports sustainable performance. The paper concludes with a framework and recommendations for embedding ethics into AI adoption.

Keywords: Artificial Intelligence, Ethics, Organizational Transformation, Responsible AI, Accountability, Stakeholder Theory.

I. INTRODUCTION

Background to the Study

Artificial intelligence (AI) is now embedded in core organizational functions such as recruitment, performance management, customer service, and strategic planning. By 2026, over 70% of large organizations report using AI in at least one business function (McKinsey Global Institute, 2025). AI improves speed and accuracy, but it also creates ethical risks including algorithmic bias, lack of explainability, and diffusion of accountability (Mittelstadt et al., 2016).

Ethical transformation refers to the shift from treating ethics as a compliance requirement to embedding moral reasoning into organizational design and decision-making. As Floridi (2023) argues, AI is not ethically neutral; it reflects the values and biases of its data and designers. Organizations must therefore manage AI as a socio-technical system governed by human values.

Statement of the Problem

Most organizations adopt AI for efficiency without corresponding governance structures. This creates risks of unfair decisions, regulatory penalties, and loss of stakeholder trust. While frameworks exist, there is limited empirical and conceptual guidance on how managers can lead ethical transformation in AI adoption, especially in emerging economies.

Objectives of the Study

General Objective:

To examine how artificial intelligence drives ethical transformation in organizations.

Specific Objectives:

1. Assess how AI transforms organizational processes and decision-making.
2. Identify ethical challenges associated with AI adoption in organizations.
3. Examine theoretical perspectives that inform AI ethics in management.
4. Propose a framework for embedding ethics into AI governance.

Research Questions

1. How does AI transform planning, organizing, and controlling functions?
2. What ethical challenges arise from AI use in organizations?
3. How do stakeholder theory and virtue ethics inform AI governance?
4. What practices enable ethical AI transformation?

1.5 Research Propositions

This study is conceptual and survey-based. The following propositions guide the empirical phase:

P1: Organizations that adopt ethics-by-design practices experience higher stakeholder trust.

P2: Human-in-the-loop governance reduces ethical and legal risk in AI deployment.

1.6 Significance of the Study

For managers: Provides a framework for governing AI ethically.

For policymakers: Informs implementation of data protection and AI regulations.

For academia: Bridges AI ethics, management theory, and organizational practice.

Scope and Limitation

The study covers organizations in Nigeria using AI in HR, finance, and customer service. It is limited to managerial and professional respondents and uses cross-sectional data.

Definition of Terms

Artificial Intelligence: Systems that perform tasks typically requiring human intelligence, such as learning and decision-making.

Ethical Transformation: The process of embedding moral reasoning into organizational design and AI governance.

Ethics-by-Design: Proactive integration of ethical requirements into AI development and use.

II. LITERATURE REVIEW

AI and Organizational Transformation

AI reconfigures classical management functions. In planning, predictive analytics and scenario modeling enable faster decisions but risk embedding data bias (Daft, 2023). In organizing and controlling, AI automates scheduling and performance monitoring, improving efficiency while raising concerns about employee autonomy and surveillance (Mittelstadt et al., 2016).

Ethical Challenges of AI in Organizations

Five ethical challenges dominate the literature. First, algorithmic bias occurs when training data reflect historical discrimination, producing unfair outcomes in hiring and lending (Mittelstadt et al., 2016). Second, lack of explainability in “black box” models prevents managers from justifying decisions to employees and regulators (Floridi, 2023). Third, accountability gaps emerge when responsibility is diffused across developers, data providers, and users.

Fourth, privacy and surveillance risks increase, as AI requires vast personal data. Fifth, job displacement raises questions about human dignity and the purpose of work.

Theoretical Perspectives on AI Ethics

Stakeholder theory argues that managers must balance AI benefits across employees, customers, shareholders, and society (Freeman, 1984). Virtue ethics emphasizes cultivating managerial virtues such as fairness, prudence, and integrity in AI use. Utilitarianism evaluates AI by aggregate social welfare but risks marginalizing minority groups.

Regulatory frameworks are also shaping practice. The European Union’s Artificial Intelligence Act (2024) mandates risk assessment, human oversight, and transparency for high-risk AI systems. Nigeria’s Data Protection Act (2023) imposes similar requirements for automated decision-making.

Gap in Literature

Most studies focus on technical performance or consumer-facing ethics. Less attention is paid to how AI transforms the role of the manager and requires a new managerial ethics. This study addresses that gap.

Conceptual Framework Ethics by Design for AI

Ethical transformation occurs when organizations move from compliance driven to proactive ethics by design. The framework has four layers:

1. **Governance Layer:** Board level AI ethics committee, clear accountability. And an organizational AI ethics charter aligned with core values
2. **Design Layer:** Embed fairness testing expandability requirements, and bias audits into the AI development lifecycle.
3. **Operational Layer:** Implement human in the loop processes for high stakes decisions and maintain incident response protocols.
4. **Culture Layer:** Build AI literacy and ethical reasoning into management development to create psychological safety for raising concerns.

III. METHODOLOGY

Research Design

The study adopted a descriptive survey design using quantitative methods. This design is appropriate for examining relationships between AI governance practices and ethical outcomes in organizations.

Population and Sample

The population consists of 1,200 managers and IT professionals in 150 organizations in Port Harcourt and Abuja that use AI in at least one function. Using Yamane's formula at 95% confidence level, a sample size of 300 respondents was selected. Stratified random sampling was used across sectors: finance, telecommunications, manufacturing, and professional services.

Instrument for Data Collection

A structured questionnaire was used. It had 4 sections:

Section A: Demographics

Section B: AI Adoption and Use – 8 items

Section C: Ethical Governance Practices – 12 items measuring ethics-by-design, human oversight, auditing, and training

Section D: Ethical Outcomes – 10 items measuring stakeholder trust, fairness perceptions, and compliance

Responses were on a 5-point Likert scale from 1=Strongly Disagree to 5=Strongly Agree.

Validity and Reliability: Content validity was reviewed by two AI ethics scholars and one data protection officer. Cronbach's Alpha for the instrument was 0.91.

IV. METHOD OF DATA ANALYSIS

Data were analyzed using descriptive statistics, Pearson correlation, and multiple regression in SPSS v29. Descriptive statistics addressed research questions 1 and 2, while regression tested propositions P1 and P2.

Ethical Considerations

Informed consent was obtained. Participation was voluntary, anonymous, and confidential. Data were used solely for academic purposes.

Data Presentation, Analysis, and Discussion

Response Rate

Out of 300 questionnaires distributed, 278 were returned, giving a response rate of 92.7%.

Demographic Profile

62% of respondents were male, 38% female. 58% were aged 28-45 years. 45% worked in finance and fintech, 25% in telecommunications, and 30% in other sectors.

Analysis of Research Questions

Research Question 1:

How does AI transform organizational processes?

Respondents reported high use of AI in data analysis ($M=4.12$), customer service automation ($M=3.98$), and recruitment screening ($M=3.45$). Planning and controlling functions showed the greatest transformation, while organizing showed moderate change.

Research Question 2:

What ethical challenges arise?

The highest-rated challenges were lack of explainability ($M=4.21$), algorithmic bias ($M=4.05$), and accountability gaps ($M=3.97$). Privacy concerns were moderate ($M=3.62$).

Test of Propositions

P1: Ethics-by-design → Stakeholder Trust

Regression showed ethics-by-design practices significantly predicted stakeholder trust ($\beta=0.52$, $t=9.34$, $p<0.001$), explaining 41% of variance.

P2: Human-in-the-loop → Reduced Ethical Risk

Human oversight significantly reduced perceived ethical risk ($\beta=-0.38$, $t=-6.21$, $p<0.001$), explaining 29% of variance.

V. DISCUSSION OF FINDINGS

The findings confirm that AI transforms core management functions but introduces ethical risks consistent with Mittelstadt et al. (2016). Organizations with ethics-by-design practices build higher trust, supporting Freeman's (1984) stakeholder theory. Human oversight reduces risk, aligning with Floridi's (2023) argument for human-centered AI. The results also align with regulatory requirements in the EU AI Act (2024) and Nigeria Data Protection Act (2023), which mandate risk assessment and human oversight.

VI. SUMMARY, CONCLUSION, AND RECOMMENDATIONS

Summary of Findings

1. AI significantly transforms planning and controlling functions in Nigerian organizations.
2. Key ethical challenges are explainability, bias, and accountability.
3. Ethics-by-design practices significantly enhance stakeholder trust.
4. Human-in-the-loop governance reduces ethical and legal risk.

Conclusion

AI is not ethically neutral; it encodes the values, biases, and priorities of its designers and data. Ethical transformation in organizations requires treating AI as a socio-technical system subject to human oversight and moral reasoning. Managers who treat ethics as a design constraint rather than a compliance burden will build more resilient, trusted, and sustainable organizations.

Recommendations

1. Adopt a Public AI Ethics Charter: Commit to fairness, transparency, privacy, and human oversight, aligned with UNESCO's Recommendation on the Ethics of Artificial Intelligence (2021).
2. Conduct Algorithmic Impact Assessments: Before deploying AI in HR, lending, or customer scoring, evaluate risks to fairness, privacy, and safety.
3. Maintain Human-in-the-Loop Governance: Prohibit fully automated decisions in high-stakes areas without human review and override capability.
4. Train Managers in AI Ethics: Integrate AI ethics into executive education and management curricula (Daft, 2023).
5. Establish Independent AI Audit Function: Internal audit should assess AI systems for bias, accuracy, and compliance annually.
6. Engage Stakeholders Early: Consult employees, customers, and regulators during AI system design to surface ethical concerns (Freeman, 1984).

5.4 Suggestions for Further Study

Future studies should use longitudinal designs to track ethical outcomes over time. Comparative studies across countries in Sub-Saharan Africa would provide broader insights.

Contribution to Knowledge

This study extends stakeholder theory and virtue ethics to AI governance in emerging economies. It provides a validated ethics-by-design framework for practitioners.

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