

## **The (ir)relevance of integrity and reputation in organizations**

### **Abstract:**

Although the notion of “integrity” often remains an elusive concept, it can enhance overall (organizational) value. However, such an approach may lead to a purely instrumental interpretation of integrity where the pursuit of integrity as “good reputation” is pursued while ignoring its important intrinsic value. Without taking into account this intrinsic perspective of integrity, any integrity strategy will remain within the realm of self-interest that ultimately may destroy the notion of integrity itself. Moreover, integrity and its organizational expressions are complementary to compliance strategies and can be a powerful force against free riding, greed and corrupt behavior within organizations.

### **Introduction:**

In the wake of the numerous recent corporate and organizational scandals, politicians and the law are demanding more stringent reporting and controls to restore the reputation of our corporate world. In the most notorious collapse, the Enron rhetoric trumpeted a culture guided by a comprehensive ethical code of conduct to reinforce “governance” procedures, but the reality saw Enron executives flagrantly flouting the spirit of the culture they had created to the extent they even colluded with their external auditors, Andersen, to avoid warning either investors or regulators about ongoing systemic irregularities. The lack of integrity demonstrated by Enron executives resulted directly in the subsequent collapse of Enron and the inevitable destruction of its reputation.

In this essay, I emphasize the link between the relevance of personal and professional integrity on the one hand and the reinforcing role of corporate compliance strategies in terms of reducing risk and securing credible corporate reputation on the other hand. Integrity demonstrated by the corporate leadership, which intrinsically focuses on adhering to moral commitments, can lead to better compliance, enhanced corporate reputation and reduction of risk. Above all, the resulting ethical organization will provide an environment in which employees will be proud to work.

The first section reflects on the notion of integrity, its relation to reputation in organizations and how it is related to responsible commitment, moral courage honesty and generosity. Accurately understanding integrity introduces a trust creating process and shows how free-riding - i.e. a form of corruption that undermines integrity - is self-destructive in the longer term and is certainly not socially optimal. Subsequently, I question in a second section whether an *'integrity strategy as good reputation'* should be interpreted as instrumental and utilitarian only, or whether there exists an intrinsic meaning beyond pure individual and organizational self-interest. Finally, I examine some practical organizational tools such as "moral compass", transparent reporting, capacity building, crisis management and dilemma training. These are just a few examples of how integrity and its subsequent integrated responsibility strategies can be implemented in organizations – increasing its reputation -, and how they can make a difference in the performances of an organization.

### **The 'Value' of Integrity**

A number of researchers and companies believe that an effective anti-corruption program (Arvis & Berenbeim, 2003) is best achieved by institutionalizing a culture of compliance within the organization supported by specific systems designed to reduce the opportunity for criminal activity and to detect unethical behavior. Compliance standards such as strict procedures, codes of conduct (Wallace & Zinkin, 2005, p113) or rigorous corporate governance regulations allow organizations to respond reactively to shareholder expectations as demonstrated by a rather mindless box ticking approach. This managing to compliance standards may moderate the (legal) liabilities of the organization. However, using incentives to encourage self-monitoring is potentially more cost-effective than sanction-based public enforcement. Such research argues that anticipating stakeholder expectations is often less expensive in the long run than short term compliance with regulations (Kennedy-Glans & Schulz, 2005, p11). More

regulation does not of itself generate integrity. It may only be able to reduce some aberrant unethical behavior out of fear of sanctions or retaliation but it will not motivate people in organizations to become better citizens. Indeed, beyond a certain point it may even become counter-productive. Besides the penalizing 'stick' approach (i.e. compliance strategies), a rewarding carrot approach (i.e. integrity based strategies) needs to be invoked. Managing beyond compliance may create competitively advantageous strategies. Compliance with (the letter and spirit of) laws and regulations is a necessary corporate motivator, but complete compliance with rules by all employees of an organization does not guarantee an organizational integrity. A culture of *integrity* is, therefore, needed to address the complexity of the modern organization. It will naturally foster individual private *compliance* as well as bolstering a *trusting* environment within the organization and beyond.

The notion of 'integrity will now be examined before attempting to show how free-riding and unethical behavior can undermine integrity.

### **Integrity: keeping commitments, be honest and generous**

The Oxford dictionary defines integrity as the condition of being unified, unimpaired or sound in construction. The notion of integrity implies (1) an uncompromising adherence to a code of moral, artistic, or other values; (2) utter sincerity, honesty, and candour; and (3) avoidance of deception, expediency, artificiality, or shallowness of any kind. Somehow, however, focusing on an uncompromising adherence to moral principles can diminish the importance of ambiguity. Integrity displays a virtuous behavior within a complex reality that serves to link or dissolve disparate goals, values, emotions, aspects of self and periods in an individual's life. Integrity is a virtue of balance that allows management of self-conflicts in a normative manner while taking into account that the self is dynamic and always in process, and thus, often ambiguous.

The Latin root of the notion of integrity - 'integer' - means 'wholeness': a person of integrity is a whole person, a person somehow undivided. The word integrity conveys not so much a single mindedness or fanaticism as a completeness. Integrity refers to the serenity of a person who is confident in the knowledge that he or she is living. Integrity relates to the integration of moral values into moral proper behavior, and of integrating processes of transparency into accountability. A person of integrity is someone whose conduct follows from his principles in spite of public opinion, official pressure, or personal temptation, whose conduct forms a certain kind of morally intelligible 'whole', even if these values may be falsified as not 'true'. A person embodying (high) integrity is often perceived as someone who judges in a compassionately manner and with wholeness of purpose, demonstrating forgiveness and kindness (Koehn, 2005, p130).

A person of integrity reflects about and *discerns* what is right and wrong. In addition, he *acts* on what he has discerned even at a personal cost. Furthermore, he *acts openly* on the understanding of what is perceived to be right and wrong and is unashamed of not doing the 'right thing' (Carter, 1996, p7). As such, integrity requires a degree of moral reflection, and identifies a person as steadfast who keeps commitments in the face of challenges. In other words, a person of integrity supposedly integrates a reasonably coherent and relatively stable set of highly cherished values and principles with a cognitive though often tacit behavior. That person expresses these values and principles while his conduct embodies his values and principles in a consistent way with what he says (Benjamin, 1990, p51). The notion of integrity is intrinsically interwoven with a theory of the good life (Cox & La Caze, 2003, pXIX). Indeed, integrity has its origin in "our wanting to realize our conception of a good life" (Kekes, 1993, p96). A person of integrity is a person who can be *trusted* to do right, play by the rules and keep commitments. Such a person is virtuous, *trustworthy* (Verhezen, 2000) and demonstrates good character. That does not mean he cannot make faults or commit sins; it means that there is a genuine attempt to live according to convictions and principles. Integrity alone is not a guide; it does not indicate what

is right or wrong, but it “helps us see the ‘truth’ of right and wrong” (Carter, 1996, p19). Integrity thus becomes the basis for giving trust and being trusted in an organization. It is hard to deny that a complex society is not likely to survive if all its members are governed solely by exclusively selfish motives. So participants have an interest to trust each other unless proven differently, and to develop an attitude of integrity based on the fundamental (and universal) principle of reciprocity which leads to beneficial cooperation and collaboration. Giving trust and being trusted, based on the principle of reciprocity, is closely related to an attitude of integrity. A reflexive person of integrity knows well that it is in his interest to be trustworthy, to be honest or generous to engage in beneficial cooperation.

Most importantly, a person who is bestowed the notion of ‘integrity’ upon him/her usually achieves this state of being morally steadfast in cases of adversity. There is no integrity without the risk of loss. “A person of integrity is willing to bear the consequences of his convictions, even when this is difficult, that is, when the consequences are unpleasant” (Carter, p23). The test of integrity comes only when doing the right thing entails a significant cost (Hampshire, 1983, p159), i.e. in cases of physical, financial or mental adversity. Being morally consistent in easy situations does not necessary implies that a person shows integrity; only in difficult situations where the person needs to make clear and conscious choices and display moral courage even at a cost, integrity can be achieved.

So far so good. Unfortunately, this attempt to define integrity does not really say anything more than that integrity is a desirable virtue. However, the difficulty of being able to accurately attribute integrity to oneself or others reflects the elusiveness of the notion. Life - and its expression of what a ‘good life’ could be - is far from black and white. The appearance of certainty throughout a person’s moral life may indicate some lack of integrity because ambiguity is disregarded. Undue certainty and self-deception may show a lack of integrity. Despite the acknowledged ambiguity of life, one expects a person to make up his mind and

stand steadfast in his moral principles. Integrity involves reordering and reprioritizing one's moral commitments. The virtue of integrity balances on the fine line between holding true to commitments no matter what the cost to other values or other people and continuously changing one's mind in a non-reflective manner. Virtuous integrity justifiably integrates an intelligible and defensible moral vision in one's character within a certain context, enabling a wise person to know how and when to adapt his moral principles and commitments when understanding a different reality asks him to do so.

### **The virtue of integrity in organizations**

The opposite of integrity is best described as (moral) corruption – the getting away with things that are known to be morally and often legally wrong. Doing the right thing rather than the wrong is neither habit nor instinct; it is an act of will or a moral act, and not just an act out of fear for sanctions. Corrupt behavior illustrates the lack of integrity; corruption is the antithesis of integrity.

Integrity based strategies are normative statements found in mission and values statements of organizations (Paine, 1994). Such norms may guide actual empirical behavior. The fact that an organization is committed to ethical values and has developed codes of conduct and governance principles does not guarantee that its agents or employees act accordingly. One needs an *attitude of integrity* which not only follows both the letter and the spirit of the rules and regulations, but adheres to ethical values with a long term view.

The ability of a CEO, administrator or management team to retain their integrity will depend on the way in which virtues are exercised in sustaining the institutional form of good best practices and good (corporate) government. The integrity of a [best] practice requires “the exercise of the virtues by at least some of the individuals who embody it in their activities” (MacIntyre, 1981, p195), and represents the values of the organization. Conversely, the corruption of

institutions is in part an effect of vices and undermining good governance rules. Without an overriding integrated conception of an ideal of a whole and good human life, without clear ethical objectives and clear vision on values, our conception of certain individual virtues incorporated in institutional practices remains partial and incomplete.

The value of an organization is not only measured by its physical capital and assets. Intangible assets play an increasingly important role in organizations. Maximizing the value of a company implies a focus on both financial and non-financial targets, rather than the pure maximization of profits. Moreover, those intangibles (or sometimes called Intellectual Capital<sup>1</sup>) constitute enormous 'real' value to the organization (Edvinsson, 2002, p24). Integrity and its related concept of *moral capital* is part of those valuable Intellectual Capital or intangibles assets. These intangible assets are significantly related to relationships with different stakeholders (i.e. the customers and suppliers, employees and partners) of the organization, based on a certain moral attitude and economic sense of those directing and sustaining the organization. Those relationships implicitly refer to and rely on *trust* between the interacting parties, and the *trustworthiness* of the individuals leading and managing the organization. It is this trustworthiness arising from an attitude reflecting integrity (Van Luijk, 2004) that partially constitutes *moral capital* (Lennick & Kiel, 2005, p26-35) in an organization. The notion of *moral capital* consists of *moral intelligence*, i.e. knowing *what* to do and integrate values into coherent behavior, and *moral competence*, i.e. knowing *how* to act with integrity and doing the right thing. Moral capital is interpreted as consistently and intentionally behaving in a manner of compassion and integrity within organizational and individual responsibility and authority. Hence, the close relationship between moral capital and the notion of integrity.

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<sup>1</sup> Intellectual Capital (IC) is considered as the resource that creates invisible or intangible sources of competitive advantages such as networks and organizational systems. The value of any organization is constituted of (1) the physical tangible and financial capital which one finds on the balance sheet of a company and (2) the intangible assets of a company which are often described as "goodwill" on the balance sheet. A company's intangible assets is usually determined as the sum of its *human capital* (talent, social and moral capital), *structural capital* (intellectual properties, methodologies, software, documents, and other knowledge artifacts), and customer capital (client relationships).

Integrity reflects a certain professional responsibility, emphasizing a “right” attitude and a certain manner of approaching a moral dilemma, rather than specific moral characteristics (Karssing, 2000, p30). Obviously, such an attitude of integrity may lead to appropriate ethical behavior which complies with what one can expect of a virtuous and trustworthy individual. A reputation for integrity must be earned by being honest and trustworthy. Once that reputation is gained, one can be trusted by one’s colleagues. Such a reputation not only shows personal ‘worth’ and leadership, but also enhances the organization’s value.

### **Subversion of integrity by free-riding**

Despite the (personal and) organizational ‘worth’ of emphasizing integrity based strategies, many corporate organizations are reluctant to adopt anti-bribery rules unilaterally as long as they believe their competitors continue to pay bribes. Efficient multinational organizations face a *Prisoners’ Dilemma* (PD) when they deal with corrupt government officials. Each believes it needs to pay bribes in order to do business, but each knows that all of them would be better off if none of them paid (Rose-Ackerman, 1997). The reluctance of individual companies can be overcome by developing a broad consensus on an optimal solution through institutionalizing *compliance* strategies (Heimann, 1997, p152). However, developing an awareness of *integrity* strategies will possibly lead to some competitive advantages in a world where ‘moral propriety’, commitment to stakeholders beyond shareholders and political correctness are well appreciated.

On an individual level, it is the fear of losing one’s good reputation that may deter most people from behaving unethically and to push them to adhere to the rules of the game within an organization. Indeed, pursuing pure selfish greed is self-destructive in the longer turn and people always need to ‘give some trust’ to achieve beneficial cooperation. These limits of greed carry a socio-economic and moral dimension, but even in the biological world genes seem inherently to limit greed (Dawkins, 1989, p233). The danger looms that in the short term people

always can manipulate that trust, although Game Theory proves that such actions within a longer time frame will cause acts of retaliation (Binmore, 1998).

However, only a change in individual attitude towards greed and taking advantage of the other's generosity or unconscious naivety may result in a reduction of asocial, immoral or illegal behavior. Hobbes and quite a number of other political scientists suggest that strict legal institutional sanctioning may deter the greedy selfish. Conversely – in line with Hume's notion of natural virtue of sympathy and artificial virtue of justice - without a minimum level of social internalized convention and/or moral virtues, free-riding in the Prisoners' Dilemma may not be curbed. One needs to tame the factor of greed and *hybris*. This may be achieved in two ways. The self-interest deterrent is loss of reputation through undermining the possibility of future cooperation, which is ultimately being excluded from the game. The other way is through greater awareness of moral reasoning -such as an awareness of integrity translated into "Integrity based Strategies" - which avoids harming other people.

In the simple game of the Prisoners' Dilemma (PD), there is no way to ensure trust. The Iterated Prisoners' Dilemma (IPD) is now the orthodox paradigm for the evolution of cooperation among selfish individuals as it is perceived in neo-classical economics and management theories. The paradigm of cooperating selfish agents is also strongly supported by Axelrod's computer tournament where the Tit-for-Tat strategy finished first (Axelrod, 1984, p34-37). The Tit-for-Tat solution puts forward a credible conceptual framework on both experimental and theoretical grounds as being a particularly robust strategy. Results from these tournaments demonstrate that under suitable conditions and without central authority or strict moral rules, cooperation can indeed emerge in a world of self-centered participants, as long as a cluster of individuals are willing to rely on the principle of reciprocity. One gives trust in a unilateral moment hoping that the other will reciprocate and return the trust. If both self-interested participants

can engage in such a moment of trust-giving, the principle of reciprocity is established and cooperation can materialize.

The basic idea is that on the individual level, an individual in an organization must not be able to get away with defecting without effective retaliation. On the organizational level, defection in the business world could refer for example to unlawful price competition, corrupt behavior undermining the principles of a fair price mechanism or improper advertising. Cooperation (on both an individual and organizational level) could mean to comply with the rules of the industry or to be a person with high integrity who is perceived as trustworthy with whom it is beneficial to engage in mutually beneficial business activities. Such a person or organization can be considered having a good reputation.

### **Integrity beyond instrumental rationality**

An instrumental perspective of an attitude of integrity can be translated in the reasonable 'usefulness' of a good reputation (Verhezen, 2004). However, a deep understanding of what a good life can be goes beyond an instrumental perception of 'integrity' or seeking a good reputation. Two main approaches of what integrity could mean to an individual or an organization are:

- 1) the attitude of integrity has itself an instrumental value when limiting itself to the usefulness of an individual's or organization's self-interest;
- 2) to be a person of integrity or to be an organization with a reputation of high integrity implies a moral intrinsic value which may be 'common' or 'universalized' across cultures, and beyond a purely utilitarian perspective.

### **Integrity as ‘good reputation’**

Integrity as ‘good reputation’, based on enlightened self-interest, could certainly serve personal interests and *private* aspirations. The self-regulating limits of selfish behavior as expressed in an integrity based strategy could be a potent competitive weapon for organizations. It is in the interest of the agent to be trusted and to be perceived as trustworthy. Such an integrity strategy could turn the symbolic capital of perceived integrity as trustworthiness into a real economic profit (Bourdieu, 1972). However, the ethical insight of such a strategy remains within the realm of first person perspective (i.e. limited to the Agent’s or the Principal’s perspective, but still individualized). The greater the *integrity* of a top executive or administrator of an organization, the better one can expect the *reputation* of that Agent and consequently its Principal (organization) to be. A good reputation will in itself result in greater *loyalty* and *trust* from a variety of stakeholders, and likely resulting in better economic performance.

The self-interest of a businessman to make people believe that he acts as *if* he is honest is sufficient to ensure that honest behavior (or at least the appearance of honesty) will continue to exist (Frank, 1990). The reputation of honesty does not necessarily result in a genuine form of integrity. Indeed, honesty can ruthlessly exploit the principle of (calculative) reciprocity as long as participants perceive this behavior as fair, open and transparent. Being perceived as honest, generous and reliable may result in being trusted, but it does not necessarily engage in a real attitude of integrity since people can manipulate and mislead the other’s perception about himself. It might have been a faked attitude. In such a case a person does not intend to follow a good life of integrity, he only pretends hoping to reap the benefits attached to integrity. It is clear that an attitude of integrity – despite the possible intended manipulation - may be prompted to behave in ways that would benefit himself and his group in the long term (Hardin, 1993).

When researchers examined the phenomenon of 'taking advantage' of the goodwill of the other(s) in an act of free-riding, the results suggested that greed overrules fear for the sanctions (Dawes & Thaler, 1988, p193). This conclusion has influenced this analysis: solutions against antisocial behavior such as free-riding in the form of bribery and corruption will need more than strict and formal sanctioning. Indeed, if strategies based on trust and reciprocity fail, institutional changes and reform will be recommended or most likely both should be combined as the stick and carrot approach. However, only a change in individual attitude (of integrity) towards greed and taking advantage of the other's generosity or unaware naivety may result in a reduction of antisocial, immoral or illegal behavior.

A purely instrumental interpretation of the notion of integrity as a tool to improve the administrator's or manager's reputation may undermine the inherent value of the ethical virtue of trustworthiness. Nevertheless, the aim to seduce management into a certain behavior that is *as if* it is virtuous and trustworthy may be interpreted as an event of rational self-interest. Rational egoism is the view that it is irrational to act contrary to one's self-interest and thus, rationality does not require one to refrain from harming others, especially when one would benefit from it (Gert, 1998, p352). However, if such an act would harm one's own reputation, such an act to harm others becomes irrational. It may be self-fulfilling and even useful to extend our rational concept of self-interest and recognize people's ability to think about socio-moral goals that emerge as a superior alternative to the standard economic instrumental view (Sen, 1976). The immediate impact of reputation on behavior will limit the radius of selfishness. It is the concern for others that is often the primary motivating force for acting in accordance with moral rules and for moral ideals as manifested by virtuous excellence. In addition, it is in one's self-interest to avoid shame (Williams, 1993), guilt and remorse (Tudor, 2001) and consequently one must act morally if one wishes to avoid them. Further, the risk of punishment and penalties may prevent certain immoral behavior. Despite the possible punishment and penalties when

crossing social, moral or legal thresholds, or being hurt by emotions of shame and guilt, it is the fear of losing the good reputation that may deter the individual most from behaving unethically and to push to adhere to the rules of the game.

The instrumental use of integrity to ensure a good reputation by reinforcing corporate governance serves a practical economic purpose but limits it to individual or organizational self-interest. However, integrity as good reputation, based on enlightened self-interest, could certainly serve personal interests and *private* aspirations. This approach, used as a form of rational instrumentality, becomes a tool to increase the profit sustainability of organizations and to reduce the legal and *reputational risk* as result of unethical behavior. However, the notion of integrity as good reputation does not present itself as a concept of justice that is *true*, i.e. one that can serve as a universal basis for informed and willing political agreement between participants viewed as free and equal partners. Moreover, this instrumental approach to integrity in organizations will likely undermine the notion of integrity itself in the longer term. Too much focus on cynically using one's good reputation may destroy the objective (i.e. beneficial consequences because of integrity) itself over time.

A policy of integrity serves a certain practical purpose of receiving a good reputation as in social (corporate) contracts. But it does not validate moral universal principles across organizations, business communities or industry standards or even across cultures. Such self-interested integrity strategies do not provide any epistemic reason to explain the potential universal obligatory force of moral norms. In other words, an *intrinsic moral value* of the notion of integrity besides the *enlightened self-interested* purposes needs to be articulated.

### **An intrinsic perspective of integrity as truthfulness**

Although it is quite obvious that one can justify some enlightened self-interested behavior from a personal – private perspective, it remains very contextual and its intent often hard to unravel. In other words, one easily could turn any presumed attitude of integrity into a self-interested propaganda stunt. The aim here is to find a way to go beyond a community contextual content to circumvent the potential criticism of instrumental rationality of integrity to reach some universal validity beyond cultures or ethno-centric perspectives, possibly by reaching an *overlapping consensus*. The attitude of private integrity on an individual or Agent level gives and creates a trusting environment can lead to some publicly recognized obligations on an organizational or Principal level that constitute (business) communities based on the principle of (strict) reciprocity.

An instrumental integrity strategy misses the obligatory force of binding norms and valid moral statements, unless serving one's self-interest. Some cognitive content of a normative statement needs to be considered as found in an attitude of integrity that goes beyond its instrumental rationality. Truthfulness understood as reflecting intrinsic value could refer to such a possible universal though not absolute moral perspective.

The criterion of intrinsic moral worth or truthfulness remains fallible and dependent on (1) an *intentional* sincerity and (2) *professional* accuracy of using a moral vocabulary. Truthful moral reasoning requires the “virtues” of (1) *sincerity* (i.e. what a person says reveals what he believes) – or trustworthiness – and (2) what Bernard Williams refers as *accuracy* (i.e. a person does his utmost best to acquire true beliefs) – or objectivity acquiring abilities (Williams, 2002, p45). Sincerity involves a certain kind of spontaneity when one tries to ‘tell the truth’. The notion of accuracy, implicitly referring to a semantics explaining a conceptual content, includes resistance to self-deception and wishful thinking. A moral

proposition should not be insulated from critical questioning, conjectures and refutation processes.

Paradoxically, directly focusing on loyalty and “good reputation” only without being sincere and accurate about one’s intentions will likely undermine these beneficial objectives of integrity in the long term since they are perceived as purely instrumental to increase our selfish profit maximization objectives (which are usually not revealed). However, the beneficial consequences of being a person or organization of high moral integrity are side-effects and not the main aim of integrity itself (Verhezen, 2006).

### **Integrity based strategies in organizations**

Integrity in relations definitely adds value and creates trust. In other words, the individual could gain the trust from other people by genuinely displaying an attitude of integrity. That could be easily translated in increased value to the organization. An organizational culture driven by positive motivations such as integrity and its accompanying ideals and values can inspire individuals and raise the level of their behavior and attitudes. Shifting a culture away from corrupt behavior – which (literally and etymologically) breaks down (integrity) – is critical for the organization’s and individual’s “well-being”. The goal is to create a whole new field of meaning from which the organization and its individuals can draw. Integrity based strategies mean shifting the underlying motives and “shift the values” which underpin them (Paine, 2003). Because motives are what drive behavior, a shift in motives leads to a consequent shift in behavior. When individuals have changed or upgraded their attitude affecting their behavior, they can enable and expect a shift in culture at the organizational (and broader) level.

## **Curbing corrupt behavior by Integrity Capacity building**

Based on empirical data gathering in general, most multinationals (MNCs) in developing countries with a relationship-based approach were found to be reasonably resistant to the temptation to bribe when approached by tax and other government officials. They stick to their internal rules and regulations and adhere to strict law enforcement. In addition, individuals show determination to implement certain moral values in practice, resulting in a respectful attitude of integrity. Moreover, those multinational organizations aim at increasing the moral standard. One MNC in Indonesia for example, which contributes almost 0.6% of all tax revenues to the Indonesian government, will not make any “deal” with the tax officials despite numerous contacts. All those organizations have high integrity values and know how to implement them as well as adhering to the rules and host regulations without upsetting (too much) the local (often corrupt) host government officials. Those organizations may have the self-interest to resist corruption. Moreover, showing sincerity and adherence to principles and values in a transparent and accountable manner reflect certain intrinsic value of what could lead to integrity.

An integrity based strategy or “Value Program” basically adds a moral dimension to an organization and its broader business environment, which largely reduces the assumed natural distinction between private enterprises and public institutions since both will become “servant leaders”, serving or adhering to their values and goals of the Principal. Facing ethical dilemmas, organizations will need to rely on their values and principles to provide a solution for such dilemma problems. An integrity based strategy implies an action-based or process-oriented approach in implementing values and ethical principles instead of a more formalistic rule-based compliance approach.

Obviously, such an attitude of integrity may lead to appropriate ethical behavior that complies with what one can expect of a virtuous individual. “Integrity is the

basis of trust which is not as much an ingredient of leadership as it is a product” (Bennis, 1989, p41). A reputation for integrity must be earned by being honest and trustworthy. Once that reputation is gained, one can be trusted by one’s colleagues. Such a reputation not only shows the personal “worth” and leadership, but also enhances the organizational value through a continuous dialogue with stakeholders who are critical for the organization.

The notion of integrity almost functions as the “bottom line” of an organization, *delivering (organizational) value with (ethical) values*. Integrity (and compliance) based strategies add real value in terms of an enhanced good reputation, increased loyalty, reliable products and services, trustworthy employer, credible leadership and account taking into their stakeholders’ interest. One could easily argue and empirically prove that the agents’ and employees’ attitude and their loyalty to organizational values play an even more important role in achieving some level of integrity. However, such efforts will require a conscious awareness of moral dilemmas - and dilemma training - and some ethical capacity building within organizations.

### **Integrity as in Moral Compass & Transparent Reporting**

How do values constitute perception which guides behavior? By being aware of principles and values and understanding *what* to do and *how* to implement them, the individual acquires the ability to differentiate right from wrong. This ability is defined as moral capital, combining moral intelligence and moral competence (Lennick & Kiel, 2005, p5-18). As a matter of fact, one of the two main clusters of skills of *moral intelligence* is an attitude of *responsible integrity* which can be viewed as an essential requirement to be a good (moral) leader. If the second main skill of *forgiving compassion* is added, it may build up to the necessary requirement to become a great (moral) leader.

The most successful leaders in any organization are likely to be trustworthy individuals, who have a strong set of moral beliefs and the ability to put them in action. A moral compass (Paine, 2003, p37-61), used by those individuals, is a set of deeply held beliefs and values which drive their personal and professional lives. This *internal moral compass* – i.e. our *internalized* rules and regulations overviewed by one's personal court or *conscience* – constitutes moral understanding of what needs to be done. A moral compass can be interpreted as a specific moral guide for the executives of an organization. *Moral competence* is our ability to act in alignment with what is known to be right. It is the understanding of how to implement those values. The moral compass directly affects the goals that drive behavior. As long as the goals are aligned with the moral compass, an individual can be called a person of integrity, a whole person conform with an individual's values, goals and behavior.

Empirical evidence – based on Fortune i000 research – suggests that most multinational organizations combine a compliance and integrity based strategy to address the issue of (un)ethical behavior. However, there seems to be a consensus that integrity based strategies may provide superior results in tackling moral dilemmas. Compliance with laws and regulations can never do what integrity can do. Law and its compliance is really a back up system (Cloud, 2006, p246). Individuals in those organizations feel empowered and involved in integrity based strategies whereas they may feel like they are being watched in case of compliance strategies emphasized by the Board (Trevino & Waver, 1999). However, many managers are reluctant to talk about integrity with their colleagues because they are not familiar with the moral issues, because they prefer to avoid conflicts or ambiguities which characterize moral dilemmas, and because ethics often is considered as soft and not related to management issues. Such a negative attitude vis-à-vis integrity may lead to moral muteness (Bird & Waters, 1989), undermining an attitude of integrity.

If it is considered proper and valuable to reveal the real truth or position of an organization to its share- and stakeholders, accurate and sincere reporting will be required to gain trust. Such objective (i.e. accurate) and trustworthy (i.e. sincere) reporting can be interpreted as accountable which is usually the result of an attitude of integrity to do the right thing. Thus transparent and accountable reporting not only reflects a truthful attitude, it will create and sustain trust among employees, customers, and other important stakeholders, not to forget investors-shareholders. Moreover, such transparent reporting will likely comply with most international accounting standards (given some technical events-driven adaptations in the reporting methods and standards) and be in line with the Sarbanes Oxley Act (given that new legal responsibilities for internal and external auditing legalize some good governance practices (Moeller, 2004)).

One could refer to the ethical leadership of an organization based on ethical consistency and transparency where the leader will be held accountable for his convictions and respective actions. These *defining moments* reveal their genuine commitments, test the strength of their ideals and moral values, and share their organizational or individual moral character (Badaracco, 1997, p120). They demand the capacity to work and live within the inescapable tension between (moral) 'virtue' and (economic-political savvy) *virtu* in the unforgiving real world<sup>2</sup>.

## **Conclusion**

Although having a good reputation is neither a necessary nor sufficient condition for possessing integrity, it nevertheless can be considered an organizational asset. However, good reputation achieved as a result of an *attitude of integrity* usually generates greater loyalty and trust from a variety of stakeholders. It also implies the awareness of one's economic-political and ethical responsibilities as

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<sup>2</sup> The Latin notion *virtu* – as it is interpreted by Machiavelli and many so called "Real Politiker" is the combination of vigor, confidence, imagination, shrewdness, boldness, practical skill, personal force, determination, and self-discipline, and it to be distinguished from moral *virtue* (in Aristotelian sense). Machiavelli perceived '*virtu*' as the moral code of public life.

an agent to the principal and the significance of strict implementation of one's ethical values and principles.

The Prisoners' Dilemma revealed the correlation between integrity and the limits of selfishness on the one hand, and the positive influence integrity may have on the reputation of an organization-principal or individual-agent on the other hand. Consequently, "integrity as reputation" can have a significant positive influence both in the corporate world as well as in the public sector. The perceived positive image of integrity may have an enormous empowering influence on an organization or public entity.

Integrity based strategies usually do not result from compliance but definitely would generate better compliance. In order to improve compliance, one needs not only to increase the deterrents for unethical behavior (i.e. sanctions) but also to change one's perception on moral principles and values. Integrity strategies may be able to shift motivation of organizational executives which may shift their behavior towards becoming more ethical and aligned with their norms, principles and values.

The motivation is not only *instrumental* in nature that such an attitude brings good reputation and increased value. Moreover, integrity may also have an *intrinsic* value "worth" pursuing. Indeed, integrity is worthwhile because it possesses an intrinsic value. A *trustworthy* and *truthful* CEO (Chief Executive Officer) could be considered a *Chief Ethics Officer* who leads his organization in a more appropriate and sustainable way, while increasing its total value. More than ever, there is a need for integrity in organizations to restore confidence.

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