

# Creating A Climate Of Corporate Integrity

by Scott Harshbarger and Robert Stringer

---

Critics from outside the corporate world have long attacked corporations as being amoral and greedy, routinely placing their own growth and success ahead of any concept of public responsibility. Until recently it has been possible to write off that criticism as the product of anti-capitalist leftists with examples of selfish greed written off as the product of atypical individuals. These days it is not so easy to do so. *Corporate integrity* is in question.

---

Think back to early 2002. A year ago we saw corporate scandals at Enron, WorldCom, Tyco, and Adelphia as being the result of “a few bad apples” or “evildoers.” The indictment of Enron and Arthur Andersen executives seemed to validate the notion that a limited group of executives had launched a criminal conspiracy and that their actions were an aberration, an exception to the rule that the American capitalist system was working just fine, thank you. Even though investors had lost over \$7 trillion in shareholder value since the bull market bubble burst, everyone was losing, just as everyone had gained during the boom. That was just part of the business cycle.

Now it is 2003 and we are forced to deal with a new reality. The year 2002 saw the landslide passage of the Sarbanes-Oxley corporate reform bill and the popular crusade against Wall Street by New York Attorney General Eliot Spitzer. What happened?

Thanks to the actions and alleged excesses of CEOs, the general public and, more importantly, the investing public and media have lost confidence in the fundamental integrity of corporate America. There has been a breakdown of the checks and balances essential to effective self-regulation. This breakdown included “independent” auditors, lawyers, accountants, investment advisors, bankers, and

boards of directors. And the main “cop on the beat,” the Securities and Exchange Commission, has failed to act.

People today simply do not believe that they can trust what they hear and read. They feel corporations benefitted from a system that fails to ensure honesty, accountability, and integrity.

The stark reality of corporate wrongdoing has collapsed the business-as-usual myth. People today simply do not believe that they can trust what they hear and read. Increasingly, they feel that the system has been gamed by certain corporate leaders and those who do their bidding at the expense of the average investor, and that these corporations and individuals benefitted from—and continue to benefit from—a system that fails to ensure honesty, accountability, and integrity.

The most cynical assumptions of anti-corporate critics are now widely shared by investors and the public at large. It was worse than just a greedy CEO taking advantage of his or her company. It was the company taking advantage of all of us.

In a fitting summary of the growing awareness of the importance of restoring corporate integrity, *Time* magazine chose as its “Person of the Year” for 2002 three whistle blowers who, alone among all of their colleagues, peers, and superiors, had the courage, the persistence, and the integrity to stand up to and overcome bureaucratic obstacles, resistance, and cover-ups.

---

**Scott Harshbarger** is former attorney general of Massachusetts and, more recently, chief executive officer of *Common Cause*. **Robert Stringer** is a partner with *Mercer Delta Consulting* and author of *Leadership and Organizational Climate: The Cloud Chamber Effect* (Prentice-Hall, 2002).

Remarkably, many people are still opposed to more regulation, still have great faith in the remedial powers of the “market,” and it seems, in the ability of corporate leaders to heal themselves. However, both critics and supporters of corporate America now want to see tangible evidence that CEOs are willing to acknowledge the problems and act responsibly, decisively, and aggressively to correct them.

The belief that the answers to our apparent ethical meltdown lie in the integrity of organizations and the people who lead them is a cause for hope. But if the real solution lies in restoring fundamental moral, ethical, and personal values, then what must corporate leaders do to signal to their constituencies that they have heard the call for reform, that they take it seriously, and that they are determined to rebuild our public trust?

*What is integrity?* We know integrity when we see it because the emotion it produces is *trust*. *Trust* occurs when we act consistently within a value system shared by those with whom we interact. We are seen as having integrity if we choose to act according to those values even when it is not in our personal self-interest to do so. The bigger the conflict between acting in accordance with our values and our self-interest, the more integrity we are perceived to have and the greater the trust.

The very nature of integrity contains several points of tension and apparent contradiction. The first lies in the notion of “shared values.” What if I act according to my values but these don’t happen to be ones you share? For example, I may decide to reveal information that has been entrusted to me in confidence because I put a high value on telling the truth where you put a *higher* value on keeping confidences. Is a corporation obligated to reveal information about a slight danger inherent in its product when the revelation would have a devastating impact on the value of stock and thus the financial well-being of investors? Assessing someone else’s integrity is a highly subjective act, though it is one we engage in on a regular basis.

A second tension point is that despite how important personal integrity is to us, we are reluctant to openly discuss integrity issues with others. Open

advocacy or candid conversations about personal integrity can make us vulnerable to charges of self-righteousness or to accusations of hypocrisy. Consequently, one of the most critical cornerstones of interpersonal relationships remains largely unspoken and ill defined. In the corporate world, it is much easier to publish a Code of Conduct for employees to file away under “Yeah, Whatever” than it is to engage in robust conversations about the real ethical challenges that confront people daily. Such conversations can be uncomfortable.

A third point of tension is that we, especially in America, value “freedom” as much as integrity and, therefore, we expect others—as well as ourselves—to be “free” to pursue several possible courses of action in any given situation. We admire people who make their own decisions rather than adhering rigidly to a dogma or ideology. At the same time, we feel more comfortable with decisions, even if we disagree, if we believe they were made based on core values or principles we respect. The trick to balancing freedom and principles lies in the thoughtful application of core values to specific and often ambiguous situations. Much of leadership lies in making difficult decisions, which often means freely choosing how to apply deeply held principles.

**People expect companies to have values, to act according to their values consistently, and to make the right choices.**

*Corporate integrity?* In many respects, corporate integrity—the ethics and core values of a business enterprise—is nothing more than individual integrity writ large. People expect business organizations to have values, to act according to their values in a consistent manner, and to make the right choices where the public good is at odds with corporate self-interest. This expectation has long applied to the corporation’s official acts: how it accounts for revenues, what business practices it encourages or condones, and what it says in its annual reports.

From now on, expectations of high integrity are going to be more rigorously applied to the personal

acts of corporate leaders, especially CEOs. This broader definition of corporate integrity is a result of two perceived realities: first, the exposure of misbehavior and excesses of a few CEOs, and second, the continued reform foot-dragging by corporations themselves.

**We require integrity standards of almost every profession—medical, legal, etc. The purpose of these codes, rules, or laws is to ensure a level of consistent behavior across the profession, regardless of personal values.**

The corporate world has spoken loudly about the importance of self-governance but very softly, if at all, about standards of corporate integrity. We require integrity standards of almost every profession—think of the medical and legal professions—that aspires to self-governance as a condition of allowing them some independence from legal regulation. Most standards are aspirational in nature (“thou shalt”) as opposed to mandatory and subject to penalty (“thou shalt not”). The purpose of these codes, rules, or laws is, of course, to ensure a level of consistent behavior across the profession, regardless of any one individual’s personal values. More specifically, it is to guide the professional in making difficult decisions, especially when the public trust is involved.

When does a psychiatrist or attorney reveal an imminent threat to public safety told them in confidence? The client group, the theory goes, is entitled to consistency in standards of competence, professionalism and values, particularly when there are legitimate, competing principles. Why are we, the public, not entitled to the same consistent integrity from the corporations we do business with and invest in?

Standards of corporate integrity, much like standards of personal integrity, become an issue when people experience distrust. In the past, that distrust was limited to a small set of greedy corporate scoundrels. Now that distrust is widespread, and corporate integrity has become an issue for us all. Investors,

employees and citizens are calling for reform. The need for higher and more explicit levels of corporate integrity has never been greater.

**Corporate leaders are increasingly being held accountable for the personal behavior of all members of their organization.**

Corporate leaders, especially CEOs, are placed in an impossible position. Like public elected and appointed executives before them, corporate leaders are increasingly being held accountable for the personal behavior of *all* of the members of their organization. Not only can they not oversee each and every individual, most are also unaccustomed to defining and discussing “high-integrity behavior.”

Is there a way to inculcate high integrity, maximizing the likelihood that *all* the members of an organization will do the right thing? How can investors and the public be confident that top leadership has done all that can be reasonably expected to address corporate integrity?

Improving corporate integrity and the trust that it generates is a challenge, but it is not impossible. No one is being asked to boil the ocean. Organizational climates are hard to change, but we know a lot about *how* to change them.

Unfortunately, it often requires a scandal to convince people that they need to build a new climate of integrity. It is easier to feel that new compliance rules and controls are needless bureaucracy, overregulation, fluff for the media or exercises in political correctness. A special kind of leadership is required to have integrity be viewed as an integral part of the overall corporate governance structure, complementing—not conflicting with—the enterprise business strategy. If spending resources, time, and energy on something as intangible as corporate integrity is not viewed as adding *value*, it will not have widespread organizational support.

There is no way a high integrity leader can personally touch all those in his or her organization to articulate or enforce a new integrity message. Leaders—especially CEOs of large corporations—need

tools and techniques to create a *climate* of integrity throughout their organizations. Our approach consists of six strategies—all aimed at creating such a climate. Taken together, they create a framework for corporate reform and governance.

**CEOs need tools and techniques to create a *climate* of integrity—to create a framework for corporate reform and governance.**

□ *Articulate and discuss integrity standards and expectations.*

CEOs must articulate their expectations when it comes to integrity. In today's environment, if CEOs fail to articulate and clarify their expectations and goals regarding personal and corporate integrity, employees and investors will both hear a very loud silence. Just as corporate strategy requires a mission statement that captures the essence of its strategic intent, corporations need an *integrity statement* that captures its ethical standards. Perhaps the most frequently quoted one is Johnson & Johnson's "Credo," which sets a tone for their entire corporate culture. One reason that Johnson & Johnson's statement of values seems to be so impactful is that executives at their occasionally *talk* about it.

Articulating the standards of corporate integrity is an ongoing process, one that must be led by the CEO. Executives must *talk* about integrity. They must encourage discussions, debate, and candid conversations about the dilemmas and conflicts inherent in the corporate standards. Conversations won't necessarily convert a sinner into a saint, but they help people to recalibrate their positions on sensitive issues.

CEOs should see that forums are created to encourage integrity conversations. The most obvious forum is an integrity training experience. In addition to training programs, other occasions could be leveraged to include open and frank discussions of integrity issues and dilemmas: staff, sales, and executive team meetings, board meetings, the company newsletter and website, and Donahue-type forums. Integrity must become part of the air that everyone breathes.

## Johnson & Johnson's Credo

### Example of An Integrity Statement

*More than 50 years after it was first introduced, Johnson & Johnson's Credo continues to guide the destiny of this large, diversified health care company.*

#### Our Credo

*"We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.*

*"We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.*

*"We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens – support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.*

*"Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return."*

*Source: Johnson & Johnson*

It is crucial that the standards and expectations be realistic and specific to the organization, taking into account the real-life stresses the employees actually face. Lofty statements do not drive behavior in specific situations. We have found that case discus-

sions that include integrity dilemmas geared to the competing goals employees must negotiate are sure-fire ways of dealing with issues in a nonthreatening manner. For example, we orchestrated such interactive sessions at Pepsi International by using one or two-paragraph case studies. We even created an “integrity maze” as a platform to help Pepsi executives have candid discussions about how to apply the Foreign Corrupt Practices Act to their international business situations. Constructive debate helps organizations define appropriate behaviors.

Articulating explicit integrity standards and making corporate integrity a mandatory topic for discussion are the best way to ensure that leadership’s expectations will be understood and accepted. Moreover, free and open dialogue will help leaders learn about real life ethical dilemmas that people throughout the organization must face.

### **Conducting an integrity assessment can send a powerful message to employees and investors alike.**

*Assess existing integrity systems.*

Every organization has an integrity system, even though it may be unarticulated, unconscious, or buried in the language and behaviors that shape its culture. An assessment of the existing systems is an absolute necessity. The process of conducting the assessment sends a powerful message, and the results provide a roadmap for reform and action. If done right, the message will be heard by employees and the investing public alike.

The most effective integrity system assessments include a review of all written codes of conduct, ethics policies, reporting procedures, compliance programs, and the like, along with interviews with selected leaders, managers, and employees at all levels to get input, feedback, and reality checks on policies and programs. It is important to target practices and areas that are candidates for questionable integrity practices—such as financial reporting, recruiting and hiring policies, antifraud and abuse systems, conflict-of-interest and harassment poli-

cies, vendor selection, lobbying, campaign financing, and compensation plans. Are they all aligned with explicit corporate values?

In addition, hot issues raised by media and prosecutorial or regulatory agencies should be part of the assessment process. A comprehensive audit can be done within a 30 to 60 day period, including a full report prepared for the CEO and the board containing a set of recommendations with specific accountability and timelines for implementation.

The plan of action should be communicated broadly within the corporation with comments and feedback invited. A summary of the plan as adopted by the board should be made public and highlighted in proxy and other statements. At a minimum, the presence of such a program will give corporate leaders the benefit of doubt with investors, employees, the media, and external regulators. Of course, the key to rebuilding trust is not in the plan but in the action that results from the plan.

### **Integrity guidelines should define unacceptable behavior—the *minimum ethic*. Integrity policies and guidelines must be actively discussed.**

*Develop new systems to define and control integrity.*

The set of written policies and procedures that deal with integrity practices differs from other kinds of performance standards. Rather than focusing on what should be done (i.e., achieve a 10 percent increase in revenues or reduce costs by \$1.7 million), integrity guidelines need to be framed initially in terms of what is out of bounds, articulating as clearly and fully as possible the “shalt nots.” They should define unacceptable behavior, the minimum ethic, not the “shoulds” or the “we hope you wills.”

We have learned from experience that integrity guidelines framed primarily in terms of what should be done will be viewed as purely aspirational, idealistic, and therefore largely irrelevant.

If integrity standards and boundaries are going to actually influence people’s behavior, the policies

and guidelines must be actively discussed. Most difficult issues have competing interests or are fact specific, and those impacted by the guidelines must talk about the gray areas, the tensions, and reason underlying them. These sessions can benefit from outside facilitation but, in the end, senior executives must participate in, if not lead the sessions or seminars.

Senior executives must be willing to personally discuss exactly what their positions and thoughts are. They must be willing to help people think through the various ways of addressing ethical or integrity dilemmas. The dialogue will lead to feedback, greater understanding, and eventually to greater ownership.

New systems to define and control integrity will be an essential ingredient of the public face of the corporation. They serve notice of these policies to all stakeholders. Increasing the transparency of the entire issue of corporate integrity often deters those who might be inclined to violate the policies. We know from experience that the likelihood of detection or punishment is a key component of deterrence in white-collar crime. Visible enforcement is crucial. It may be better to have no code than to have one that is given only lip service.

### **Directness, openness and involvement are the aspects of leadership most frequently associated with high integrity climates.**

#### *Develop high integrity leadership practices.*

What people *say* certainly helps determine the norms of an organization, but what they *do* has an even more profound affect. What specific leadership practices are associated with perceptions of high integrity? What can leadership do to reinforce and develop these key practices?

We have conducted studies that identify aspects of leadership most frequently associated with high integrity climates: *directness, openness and involvement*. Corporations that reinforce, reward and endorse these patterns of behavior will more likely generate trust.

*Directness.* High integrity leaders generate trust by being direct, clear and to the point. This makes them believable and predictable. Direct leaders are not always loved, admired or even followed, but they are viewed as having integrity, leading others to have it, too.

*Openness.* Leaders who are open are perceived to have higher levels of integrity than leaders who are secretive, aloof or hard to read. High integrity climates encourage open communications, widespread sharing of information, frequent debate and dialogue. Transparent performance, visible rewards, and candid proxy statements and annual reports all build trust.

*Involvement.* Leaders who are participatory and invite others' contributions are perceived to be less arrogant, more accepting and more open than leaders who seem to have all of the answers. Involvement implies humility, and leaders with high involvement styles are perceived to have higher levels of integrity. A climate of integrity is usually more participative and more accepting of diversity.

Top leadership must have the courage to hold all of the members of their organization accountable for demonstrating these three patterns of high integrity behavior. They must not reward or ignore an arrogant, hypercritical, autocratic executive. They must not look the other way when a manager fails to level with his/her people, acts without listening or says one thing and does another.

Of course, it also means role modeling high integrity personal leadership. No other factor will have a greater impact on the climate of integrity than the day-to-day practices of the leaders. A climate of integrity depends upon having the right kind of leaders practicing the right kind of leadership.

### **What behavior leads to reprimands? What happens to those who cut ethical corners?**

#### *Redefine consequence management practices.*

Organizational climates are largely defined by what we call "*consequence management*." What are the consequences attached to behavior or perfor-

mance, especially to bad behavior or poor performance? What criteria determine promotions? What behavior leads to formal reprimands—or the lack of any? Does the corporation explicitly sanction high integrity acts by its members? What happens to those who generate results by cutting ethical corners?

The latter poses an especially difficult challenge within high-performing corporations. Setting high financial and market performance targets is advised as a mark of strong leadership. Yet high-performance cultures can easily overlook integrity as a meaningful performance standard. Leaders of such organizations are usually driven by “the numbers” and pride themselves in their dedication to “making the numbers.” Only when there are obvious lapses does integrity become a true performance issue.

This tells us that many corporations have failed to establish the right integrity systems with the right formal and informal controls, and that too often members of the organization believe it may pay to behave in questionable ways. It tells us that nobody is accountable for watching what goes on around the edges—that the consequence management practices are inadequate.

□ *Appoint an integrity point person.*

We strongly recommend that the CEO appoint a high-level executive to monitor all aspects of the complex and difficult process of corporate integrity reform. This point person works with the CEO to prove to the organization and the general public that higher levels of corporate integrity are a strategic imperative. Acting as the CEO’s independent eyes, ears, and alter ego while new standards of corporate integrity are being debated, the integrity point person asks the hard questions and probes into the corners. The focus is on the performance and image of the entire company, ensuring that all mistakes and errors are just that and no more, and are properly remedied. A good advisor will ferret out that very, very small percentage of folks who are actually corrupt.

His or her primary loyalty is to the integrity of the enterprise. The best way to be loyal is to ask ques-

tions, keep the CEO and board informed, and advocate positions they might not want to hear and may decide not to follow. With the right kind of integrity point person, the CEO will at least know the nature of current and potential ethical trouble spots.

**The costs of not having a climate of integrity should be *unacceptable* to corporations. High integrity is good for business.**

*What is trust worth?* We believe that the costs of not having a climate of integrity should be unacceptable to those who own or operate large corporations. High levels of corporate integrity will add significant value to the corporation both by avoiding costs and, more importantly, by avoiding damaging losses of brand equity, reputation, and marketplace influence—valuable sources of competitive advantage. High integrity is good for business.

Unfortunately, without decisive leadership, the loss of credibility and trust will be with us for a long while. Legislators, regulators, critics and other external parties will have all the ammunition they need to impose their own reform agenda on publicly owned corporations. Without an aggressive program of internal reform, CEOs, corporate leaders and boards of directors risk becoming irrelevant to the process.

Thankfully, there is a lot that can be done about corporate integrity from the inside. It is not a by the numbers issue, but the consequences of *not* addressing corporate integrity are tangible, expensive and potentially disastrous. Generating compliance with new and explicit integrity guidelines is an important first step. Creating an organizational climate that will motivate all members of the corporation to live and act with integrity is a second. The real test, of course, is whether the corporation acts with integrity in a consistent manner, properly balancing its own interests with the interests of the general public. No leader could leave a better legacy than this, and nothing could do more to restore public trust in American business. ■