“Integrity as a core value in organizations: the development and implementation of a strong ethical culture”

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1. INTRODUCTION

A lack of trust is listed as the number one problem facing leaders today (Cunningham, 2002). Within every sector of life, there appears to be a moral collapse among leadership: corporate world, politicians, sports heroes, even the Catholic Church cannot escape the assault on integrity (Shigley, 2010).

According to several studies, the integrity dilemma is not only plaguing our leaders, but also our culture: business confidence has reached record lows (Harned, 2009), many executives admit that their companies’ actual practices don’t match their public ethics statements (McCollum, 2002), the public believes the vast majority of corporate executives are dishonest, and many executives believe that ethics could impede a successful career (Ciulla, 2004).

Negative feelings stem from the popular belief that organizations, and especially businesses, have defaulted on their agreement with society. Other organizations such as universities and governments have also had to tackle problems related to ethics. However, business organizations have taken the most severe blows from the people, with the aim of re-establishing investors’ trust in the way business is done (Kayes, Stirling & Nielsen, 2007).

“The concept of business ethics appears to be contradictory to many; the notion of corporate social responsibility is commonly perceived as cosmetic. Reputation is often not enough to prevail over the value and satisfaction of the personal consumption and acquisition” (Choi & Digol, 2010, p. 229).

Notwithstanding, integrity and honesty are still considered as key elements of leadership. People want their leaders to be individuals they can trust, upright persons. The most desired characteristic in leadership is honesty (Kouzes & Posner, 2007). In 2005, integrity was the most common looked-up word on Merriam-Webster’s dictionary website. This implies that people know integrity is important, but are not sure what it means, or how it translates into their lives (Shigley, 2010).

2. DEFINITION OF INTEGRITY AND ETHICS IN BUSINESS

The Merriam-Webster Dictionary (2012) shows three meanings of the term “integrity”:

1. Firm adherence to a code of especially moral or artistic values: incorruptibility.
2. An unimpaired condition: soundness.
3. The quality or state of being complete or undivided: completeness.

Integrity is therefore a trait associated to human beings which confers upon them a dimension of indissolubility. In an upright individual there is congruence among what the individual thinks, says and does. If someone is recognized to have an upright behavior, it is taken for granted that his responses are going to be predictable in any circumstance, coherent with his opinions and convictions, and therefore with the potential of generating trust.

For Shigley (2010) defining integrity as "walking the talk" is not contingent upon morality, but rather congruence. He defends that "the true meaning of the word integrity is about honesty, morality, a person of strong character, and being above reproach. It is doing the right thing, for the right reasons, no matter the cost. It is right actions and motives" (Shigley, 2010, p. 19).

Integrity usually goes together with concepts such as ethics, morality and honesty. For a person to be considered upright by the social group it belongs to, they must share a series of ethical principles to allow them to assess a given behavior as correct or incorrect and to act accordingly. In the same line a moral behavior is one the same individual considers appropriate. In turn, honesty consists of making commitments and express oneself in a coherent and authentic manner.

Integrity, with all its inherent values is something we can incorporate into our lives, both on the personal and on the professional side. In its business dimension, integrity must start by the people that hold the top positions in the organization (Millar, Delves & Harris, 2010) due to the influence they have on the behavior and actions of the people below them. This is the reason for the need for an ethical leadership, as claimed by Simpkins (2005) and Treviño, Brown & Pincus (2003).

Ethics has everything to do with management. According to Paine (1994) unethical business practice involves the tacit, if not explicit, cooperation of others and reflects the values, attitudes, beliefs, language, and behavioral partners that define an organization's operating culture. Ethics, then, is as much an organizational as a personal issue.

Ethical behavior often originates from values such as honesty, integrity, and respect. For McCraw, Moffeit & O'Malley (2009) universities and colleges should emphasize ethics in their education so that graduates can effectively confront situations that they will encounter in their professional lives. Students should be made aware that the so-called "rational behavior" that follows the neoclassical economic model should be avoided. This model focuses on a narrow view of self-interest and revolves around the idea that the rationality behind individual behavior can only be found in the pursuit of personal material wealth.

Paine (1994) considers that the underlying model is deterrence theory, which envisions people as rational maximizers of self-interest, responsive to the personal cost and benefits of their choices, yet indifferent to the moral legitimacy of those choices.

Dobson (2003) suggests that students should be taught that integrity and honesty in today's organizational culture is neither irrational nor in conflict with their self-interest. Ethical policy statements should define the boundaries of self-interest within the parameters of the organization.

3. ADVANTAGES OF INTEGRITY

There is a general consensus over the role played by business over the last two centuries as a fundamental driver of progress and the wellbeing of our civilization. However, whereas for many years citizens had full trust in the business world in recent decades there has been an absolute crisis of confidence and a deep disappointment. Firms are accused of having generated inequalities, poverty and social discrimination, of having focused on uncontrolled growth leading to the destruction of the environment and the natural resources, to look only for their enrichment, no matter whether it is just or unjust. Firms and society move in diverging paths that have to be brought together. This may be possible starting from business ethics.

Anshen (1970) established the need for an implicit social contract between firms and society: society proposes the rules that structure the objectives and responsibilities of firms according to the prevailing social interests (formerly, rapid economic growth, currently improvement of quality of life and preservation of the environment), so that it allows firms to operate if they meet their part of the contract. Along the same line Jensen (2011) argues that integrity is a factor of production as important as knowledge and technology. Profit and non-profit organizations that assume integrity as their governing principle gain competitive advantages, as for example those resulting from time and cost savings in re-processes, excuses and arbitrary actions. Ethical business management has a positive long-term impact on the financial results of organizations.

In his opinion "companies that always meet their commitments, especially in tough times, are achieving growing and enduring success". He explains that the truth is that "the best way to build client loyalty is not offering good service, but giving an optimal compensation in case there is any problem". He concludes that "when you honor your commitments you are building trust, which is what all clients are looking for".

According to Tamayo (2006) it is necessary to encourage companies to implement an integrity policy, making emphasis on the economic benefits they may provide, such as:

- Increasing sales. There is a growing trend on the consumers' side to base their purchasing decisions on integrity criteria.
- Protecting and strengthening image, reputation and brand. A company that is considered to be upright may benefit from a good reputation both among its clients and/or customers leading to increased sales, and among the business community and the authorities, which will enhance its ability to attract capital.
- Competitive advantages resulting from the trust and honesty atmosphere existing among employees, leading to productivity increases and less returned sales.
- Cost reduction, such as those caused by the enrolment or recruitment of new employees. Companies considered to be upright recruit and retain their employees more easily (Treviño & Nelson, 2004).
- Resource protection. The fact that all the members of the organization do know and share the ethical principles of the company makes fraudulent resource diversion more difficult.
- Reducing the risk of legal demands. The information addressed to the different stakeholders of the company helps to identify practices or situations that could imply some kind of liability to it.

Other direct advantages of implementing an integrity policy rest in differentiating oneself from other brands in the market, attracting/retaining new consumers, increased financial performance and a better image among employees, clients, suppliers and shareholders.

3.1. TOWARDS ETHICAL BUSINESS MANAGEMENT: THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY

All these benefits are in line with those obtained when a company implements a socially responsible model. Thus, the concept of integrity takes shape as part of the so-called Corporate Social Responsibility (CSR)[1], defined according to the Asociación Española de Contabilidad y Administración de Empresas[2] (AECA, 2009) as the voluntary commitment of firms to the development of society and the preservation of the environment, and a responsible behavior with the individuals and social groups it interacts with.

The extent to which a firm may address ethical principles may be considered from a restrictive approach, according to which the relations between firm and ethics are limited to a minimum deontological code guaranteeing that the regulations are complied with and solving practical management problems, or from a much broader one, which considers that firms have a responsibility towards society, and it is not just a matter of not hurting it but also to improve it by using their power and influence (Alonso, 2007).

Lafuente *et al*. (2003) consider CSR as the new philosophy that pervades the whole organization. It is a new way of managing companies that in addition to profit making also takes people and the environment into account. Wood (1991) articulated three levels of corporate responsibility (institutional, corporate and individual); in turn, Porter & Kramer (2006) mentioned four components (legal responsibility, ethical responsibility, economic responsibility and philanthropic responsibility).

Friedman's argument (1970, p. 13) that *"the only business of business is business"*, implied that a firm would have social responsibility only when it is directly responsible for the damage caused. The World Business Council for Sustainable Development (Holme & Watts, 2000, p. 10) defines CSR as the "ongoing commitment of firms to maintain an ethic behavior and contribute to economic development, at the same time they improve the quality of life of their employees and families, of the community in which they operate and of society in general". This change in approach results from the fact that although firms are private entities they depend from the consumers that purchase their products, from the employees that produce them and from the investors that provide the capital. In conclusion, they depend from the society they are part of, which implements the rules and structures that allow them to operate (social contract).

As stated in the Green Paper "… being socially responsible does not just mean meeting the legal requirements, but rather going beyond their compliance, investing 'more' in human capital, the environment and the relations with interlocutors" (Green Paper of the European Commission, 2001, p. 7). It is a matter of evaluating firms from a social perspective and to penalize those that do not follow certain patterns, labeling them as "inappropriate".

Several authors agree in considering CSR as a key instrument in corporate value creation, through the pursuit of excellence in their relation to the different groups affected by their operation, known as interest groups or stakeholders (Backhaus, Stone & Heiner, 2002; Garralda, 2008). Freeman (1984, p. 46) has provided the most commonly accepted definition of the term stakeholder; in a broad sense it would mean "groups or individuals that may affect the achievement of the corporate goals or be affected by them".

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[1] The importance of the concept is evidenced by the different regulatory developments that have taken place at international level in the field. Among other: The White Paper on Environmental Liability of the European Commission; the Basic OECD Guidelines for Multinational Enterprises; as well as the contents and recommendations of the Global Reporting Initiative (GRI), an organization that publishes guidelines to instrument corporate social responsibility of companies.

[2] Spanish Association of Accounting and Business Administration.

In turn, stakeholders are classified into primary and secondary (Waddock, Bodwell & Graves, 2002). Primary stakeholders are those groups that are essential for the existence of the business or have some type of contractual relation with the firm, such as shareholders, employees, clients and suppliers. Secondary stakeholders are individuals from social and political groups that play a fundamental role in the firm's credibility and in the acceptation of its operations, such as local communities, non-governmental organizations, governments, media and competitors.

It is these stakeholders who must perceive that they organization they are in contact with in one way or another is transparent in its operation and is having an upright behavior in all its fields of action. The operation of any firm causes an impact that reaches beyond its close environment; this is known as externalities or collateral effects. They may be positive (development, investment, job creation, culture…) or negative (pollution, traffic jams, greater gender gaps…). Firms will try to benefit from their positive externalities.

There is the possibility for consumers to reward companies with positive externalities, although it is true that they are rarely willing to pay more for a product, even if the process is environmental-, society- and individual-friendly; notwithstanding, experience shows that individuals are willing to penalize those firms with negative externalities such as pollution, child labor or sexist discrimination. One example might be the boycott launched against an important multinational company, whose sales decreased when it was found that it was using child labor in their plants. Indeed, the company had to pay a high sum after the case had been denounced by a consumer[3].

4. HOW TO DEVELOP AN UPRIGHT BEHAVIOR IN ORGANIZATIONS

Erhard, Jensen & Zaffron (2009) elaborated a positive model of integrity that shows a causal link between integrity and increased performance in organizations, an aspect that had been widely neglected by economists. In the model's design integrity is related to concepts such as ethics, morality and legality, establishing two realms of action: positive and normative. Integrity exits in a positive realm of virtues, independent of normative value judgments, whereas legality does in a normative realm.

Although integrity and legality belong to two different domains in the proposed model, a first step towards the achievement of an upright behavior in organizations could stem from the establishment of a regulatory framework, either legal, made up by government rules or conventions, or resulting from action guidelines drafted by individual firms of by independent organizations.

The presence of a roadmap supporting the way in which individuals, and therefore organizations, shall behave may help to find out whether the objectives are being met, and if that is not the case, which actions should be changed.

4.1. REGULATORY FRAMEWORK

To respond to public outcry it remains relatively expedient and politically attractive to face up business scandal by increasing the sanctions for abusive or deceptive business conduct (Lager, 2010).

[3] This information can be seen in: http://www.solidaridad.net/vernoticia.asp?noticia=610 (viewed in March 2010).

Prompted by the prospect of leniency, many companies are rushing to implement compliance-based ethics programs (Paine, 1994). The current trend (Miller, 2004) in measuring the quality of governance in organizations is to measure their success in applying good governance principles at the Board level. It is a potential way to implement an ethical leadership in the organizations, in which managers reinforce and control the actions of their employees and a direct and two-way communication system on these behaviors is put in place.

Choi & Digol (2010) point out at the need for governments to establish some kind of regulatory framework that may be used as a reference to guide firms towards upright behavior. This would mean progressing towards an ethical corporate culture that would render legal prescriptions unnecessary. The Canadian government has been a pioneer with the appointment in 2008 of the Public Sector Integrity Commissioner[4], an office that intends to ensure citizens' trust in public sector companies by means of the establishment of integrity-based action patterns[5].

Some of the recommendations of this office included conducts to be avoided to ensure a successful implementation of deontological codes in firms, such as trying to achieve upright behaviors without linking these actions to improvements in organizational performance, or addressing only the top management, without involving line managers. Likewise, several ideas were suggested to facilitate the acceptation of the new regulatory body by the organizations now under its control, with the purpose of setting up a favorable environment in which the organization's ethical culture is understood and perceived at all levels. The acquiescence of organizational leaders is essential along this entire cultural assimilation process.

The incorporation of corporate good governance into CSR, has allowed for its rapid dissemination in the business world, since good governance codes are a common practice in companies due to the demands of investors and the rules governments are enacting to enhance transparency and information to the public.

In 2003 the European Commission established four categories of instruments available to organizations in order to incorporate corporate social responsibility practices:

- Principles and codes, such as the UN Global Compact of the year 2000.
- Certifications and management systems used to measure and report compliance with CSR practices by means of independent auditors: ISO 9000, ISO 14001[6], EMAS[7], SA 8000.
- Indexes/ratings that rank firms on the basis of their responsible practices, such as the Dow Jones Sustainability Index or the FTSE4Good.
- Reporting, with the purpose of providing information on corporate activities regarding CSR: Global Reporting Initiative (GRI).

From the viewpoint of the management systems available to measure and report CSR practices in the firm, they will become a useful instrument to achieve integrity of this principle is listed as one of the corporate values and the top management shares this explicit commitment to ethic behavior of the workers (i.e. it is a strategic planning element).

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[4] Public Sector Integrity Canada, www.psic-ispc.gc.ca.
5Additional information in "How to ensure ethics and integrity throughout an organization" (The Conference Board of Canada, Briefing, April 2008).
[6] International Organization for Standardization.
[7] Eco-Management and Audit Scheme.

Once the baseline situation of the company is known a good way to connect CSR to the improvement of processes could be the implementation of quality improvement models, such as certification with ISO Standards or the EFQM model.

The drafting process of the ISO 26000 standard started in 2005. It is intended to be a guide on social responsibility helping firms in their management. The new ISO 26000 is being drafted in line with ISO 9000 (regarding quality management), ISO 14000 (regarding environmental performance) and OSHAs 18000 (regarding management of occupational risk prevention processes).

ISO 9000 systems address aspects connected to human resources management linked mainly to the optimization of organizational resources and productivity (skill levels of each individual…), as well as the working environment (where to promote motivation, satisfaction, development and performance).

Both the ISO 9000 Standards and the EFQM propose process management as the basic principle allowing firms to analyze the different activities they carry out as an interrelated set. This entails a direct advantage for organization, not only because of the competitive advantage provided by the external acknowledgement of the fact that their operations meet certain parameters or requirements, but also because it requires an internal analysis which enables them to detect potential management errors and to define improvement strategies. Total quality management in organizations implies therefore, not only achieving certain levels of performance or compliance with requirements, but also constantly reconsidering new broader outreach objectives by means of a critical analysis of the organization’s actions within an ongoing PDCA (Plan-Do-Check-Act) improvement cycle in the different areas of the firm into which it is necessary to incorporate the business ethic principle.

The GRI guidelines for the drafting of sustainability reports are the most frequently used and accepted framework for rendering accounts of CSR management. Complying with them improves the quality of sustainability reports to the extent that they are at the same level as financial ones in terms of comparability, rigor and credibility. These guidelines enhance transparence and rendering of accounts in businesses, public entities and non-governmental organizations of all sizes and sectors.

The much-used AA1000 standard for the measuring and reporting of ethical behavior in business is an initiative stemming from the AccountAbility council, which offers a freely accessible copyright-free standard. It is based on the use of a specific set of principles to assess the quality of the sustainability report of an organization and the main systems, processes and competences supporting its results. The procedure also includes disclosing of results in order to generate credibility among users and reporting on the quality of the firm’s social, environmental and financial performance.

This standard is a complement to the GRI and its purpose is to standardize and update information on organizations. For while the GRI seeks to set a common framework for reporting, AccountAbility's AA1000 standards are most widely used to drive the processes behind a stakeholder inclusive approach to sustainability – one that ensures that reports speak to stakeholders' needs.

4.1.1. BEYOND LEGAL COMPLIANCE: THE ROLE OF BUSINESS CODES OF CONDUCT

The legislative approach to promote desirable behaviour by threatening to punish bad behaviour has made its way into many organization's codes of conduct (Lager, 2010). Multinational companies install codes and regulations that structure what is legally permissible.

In some organizations (Bassett, 2008), ethics programs initially focused exclusively on legal compliance. Although discipline is of course a necessary element in any ethical system and although formal codes and other internal formal regulations that emphasize compliance are necessary, legal compliance is unlikely to unleash much moral imagination or commitment. The law does not generally seek to inspire human excellence or distinction. It is no guide for exemplary behaviour.

Converting ethical problems into legal ones, compliance has ascended as the sole measure of propriety. Indeed, many organizations have had to develop their codes of conduct as an essential requirement to obtain financial support, for example from the World Bank, or in order to do business with governments (Lager, 2010).

Furthermore, there is little empirical evidence that employee codes affect employee behavior. Either because the principles declared in the codes are not applied or because ethics training is often exclusively on conformity to regulatory and rules based legislation and not on clarifying values and fostering integrity to those values and to enduring principles, the presence of a code of conduct does not guarantee that its contents are learned and that attitudes will change (Lager, 2010).

Members of the Board do not lead or manage an organization on a day-to-day basis and the overall general health of the organization's integrity and ethics rests in the hands of the managers inside the company. Simply having a policy won't instill integrity or consistently ethical behavior in an organization today (Miller, 2004). Those managers who define ethics as legal compliance are implicitly endorsing a code of moral mediocrity for their organizations (Paine, 1994; Kayes, Stirling & Nielsen*,* 2007). Although compliance is important, it is no substitute for integrity.

The best organizations progress beyond the compliant corporate culture to a culture that encourages exemplary behavior, where doing the right thing results in good business rather than simple compliance to regulations (Kayes, Stirling & Nielsen*,* 2007).

As Bassett (2008) points out, creating and enforcing codes of conduct and ensuring compliance with laws and regulations are important and help protecting organizational reputation, but as important as this is creating a non-threatening environment. If ethical programs are exclusively based on legal compliance, the consequence is that the ethics offices were seen as enforcers, as policies agencies and consequently faced a great deal of suspicion and concern from employees and leaders. In this way a culture of hostility and silence is generated, in which the ethics officer is seen as someone to be avoided or as adding no value to the organization, a culture in which organizational issues are not discussed openly, and the silence may actually contribute to unethical behavior. An effective ethics office creates a culture where asking questions is encouraged, where employees feel safe raising questions instead of pointing fingers.

Verhezen (2010) shares the same opinion as he mentions that although formal mechanisms making emphasis on legal compliance are necessary, informal mechanisms that are based on relationship-building are more likely to achieve moral excellence.

More effective than the usual compliance-based ethics system are values-oriented or integrity-based programs, where the focus is not on compliance, but on maintaining a culture where ethical issues can be discussed, ethical behavior is rewarded and the organization's values are incorporated by its leaders into strategic decision (Weaver & Treviño, 1999; Lager, 2010).

The most successful value-based systems will have some elements of a compliance program, but formal ethics systems will have little influence on behavior unless they are coupled with cultural systems supporting ethical conduct (Treviño & Brown, 2004).

4.2. THE CHALLENGE OF DEVELOPING AN INTEGRITY CULTURE

Organizational culture involves beliefs, expectations, ideas, values, attitudes and conducts of the members of an organization. This value system has an impact on the ethical conduct of managers and employees, since each of the individuals that make up an organization in influence by the behavior of all others. Although it is true that employees observe in their superiors an ethical behavior, because this will lead him to act accordingly, colleagues at work also have some type of influence of the way individuals behave within an organization.

According to Gebler (2004, p. 1), "the majority of corporate leaders maintain high levels of personal integrity. However, many of these leaders have not developed skills to model that integrity in ways that managers and line employees can rely on to build and sustain integrity based-work environments at the local level". Kavanagh (2010, p. 8) argues that "when employees are put in an environment that does not support values, even 'good' people can be pressured into believing that they do not have any choice but to get the job done, no matter what it takes".

Authors such as Guillén (2006) and Treviño, Weaver & Reynolds (2006) claim for the need of corporate management to establish certain mechanisms aimed at favoring the incorporation of ethical behavior into the organizational culture. An example would be implementing an ethics training program, drafting an ethical code with an explicit definition of the rules included, and establishing a public rewards system linked to performance.

According to McCraw, Moffeit & O'Malley (2009, p. 2) "a formalized statement of conduct announces to all personnel the level of expected behavior. However, the actions of top management often define what is actually deemed acceptable regardless of the values expressed in a written statement".

Therefore, managers are facing the challenge of implementing a strong ethical culture without having enough support from a staff that has already got ethical principles. The importance of this strong ethical culture is evidenced in the study *The importance of ethical culture: increasing trust and driving down risks* based on the results obtained by the ERC's (Ethics Resource Center) in the 2009 National Business Ethics Survey (NBES). The study found that in stronger ethical cultures, employees feel engaged and committed to the company and this protects the company from the risks associated with misconduct and lurking ethics issues (Kavanagh, 2010). This study has shown that a significant correlation exists between the strength of the ethical culture and an increased ethical behavior (Bannon, Ford & Meltzer, 2010).

As Paine states (1994, p. 111) "while compliance is rooted in avoiding legal sanctions, organizational integrity is based on the concept of self-governance in accordance with a set of guiding principles. From the perspective of integrity, the task of ethics management is to define and give life to an organization's guiding values, to create an environment that supports ethically sound behavior, and to instill a sense of shared accountability among employees".

In contrast with compliance leadership, ethical leadership can have several positive effects. Employees in organizations with strong ethical leadership are more committed to their organizations, mote ethically aware and more willing to report problems (Treviño, Brown & Pincus, 2003). In stronger ethical cultures fewer employees feel pressure to compromise company standards, more employees observe misconduct and there are fewer incidences of every kind of misconduct, employees who observe misconduct are more likely to report it and reporters are less likely to experience retaliation (NBES, 2009).

"A leader who strives for compliance is unlikely to lead an ethical organization (…) Acknowledging that law and regulation provides an inferior gauge for assessing ethics is a key first step for an ethical leader" (Lager, 2010, p. 219)

Many integrity initiatives have structural features common to compliance-based initiatives: a code of conduct, training in relevant areas of law, mechanisms for reporting and investigating potential misconduct, and audits and controls to insure that laws and company standards are being met. But an integrity strategy is broader –it seeks to enable responsible conduct-, deeper –it analyzes and reformulates the main values and operating systems in the organization-, and more demanding than a legal compliance initiative –it requires an active effort to define responsibilities and the aspirations that constitute the ethical limits of the organization- (Paine, 1994).

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From an ethical perspective, the fact that firms, by means of their organizational culture become responsible for their behavior entails a series of advantages as compared to strict legal compliance (Argandoña, 2003). First of all, it is obvious that the firm has a better knowledge of what is ethically desirable in a given situation or case as compared to the general principles on which the norm is built. Moreover, since firms are entities undergoing continuous change it may happen that a measure imposed at a given moment is not valid anymore as the conditions change or as the culture of the firm or the values that make it up may change. Finally, it is clear that a voluntarily drafted and adopted program generates greater motivation and commitment among managers and employees than one established coercively.

The law may force firms to implement certain practices or achieve certain results. However, the results obtained even if they are correct not always result from an ethical behavior. It is not possible to force individuals and organizations to behave in an ethical manner.

5. HOW TO IMPLEMENT AN ETHICAL CULTURE

There is no one right integrity strategy. Factors such as management personality, company history, culture, lines of business, and industry regulations must be taken into account when shaping an appropriate set of values and designing an implementation program (Paine, 1994).

Although many organizations have an ethics statement, acceptable behavior is often the result of the internalization of values displayed by others. Appropriate behavior sets an example that can influence suitable choices on the part of all organizational employees. The actions of top management often define what is actually deemed acceptable regardless of the values expressed in a written statement (McCraw, Moffeit & O'Malley, 2009).

Leadership

Above all, organizational ethics is seen the work of management. Managers at all levels and across functions are involved in the process (Paine, 1994). According to Lager (2010) the literature is replete with studies showing leadership crucial to assuring ethical organizational behavior. Leaders can have a great impact on organizational culture, which has the greatest influence in determining ethical outcomes; leaders are perhaps best positions to influence an organization's culture, and act as role models for subordinates about appropriate organizational behaviors; to set a good example, leaders must be ethical role models who make visible the ethical challenges they face and the standards applied to their resolution; having top managers set a good example and keep promises has a statistically significant impact on several ethics-related outcomes.

Leaders set an example of integrity for others to follow. "As a leader, people are watching you to see if you 'walk the talk, and talk the walk'. They so desperately desire to follow a leader who 'practices what they preach'" (Shigley, 2010, p. 20).

In many organizations, there is a distinct gap between the lofty principles espoused by leaders and the reality. There are three traits of leaders of integrity-based organizations that help close that gap by demonstrating integrity at all levels of the organization (Gebler, 2004):

1. Leaders must model the behaviors they demand of others. Personal integrity cannot be abstract. It must be shown.
2. It can't be shown only in broad terms, such as inside annual reports and codes of conduct. Integrity leaders communicate the importance of integrity even when engaged in difficult conversations with investors, customers, suppliers or other employees.
3. Integrity-based leaders acknowledge the pressures of managers faced with reconciling the company's values with business objectives on a daily basis. Integrity-based leaders acknowledge the pressures placed on managers and employees, are aware of where ethical lapses are most likely to occur and work to alleviate pressures that might cause managers and employees to violate values and standards.

Such leaders help guide their companies through ethical challenges and create expectations throughout the organization of ethical standards. Such leaders have in common a strong set of core values and among the top values you will find ethics and integrity. Strong leaders use their core values as a set of guiding principles of a moral compass.

"But, 'where have all the strong leaders gone?' Even good leaders can succumb to the profit driven sociopathic culture. Overcome by exceptions to policies and ill-defined compensation plans, they begin to believe that success is profit, no matter how attained" (Miller, 2004, p. 2). This approach persists both in the so-called "rational behavior" (McCraw, Moffeit & O'Malley, 2009) model, which focuses on a narrow view of self-interest and revolves around the idea that the rationality behind individual behavior can only be found in the pursuit of personal material wealth, and in the "deterrence theory" (Paine, 1994), which envisions people as rational maximizers of self-interest, responsive to the personal cost and benefits of their choices, yet indifferent to the moral legitimacy of those choices.

According to Dobson (2003) students should be taught that integrity and honesty in today's organizational culture is neither irrational nor in conflict with their self-interest. Magala (2010) states that a cultural change is needed. For Choi & Digol (2010) the role of government is important and they suggest that "a perfect society will be a balanced society where the business is at the service of the society as a whole. This is only possible to achieve when the creative and insightful business leadership is practiced in the society (…) The challenge of constructing an enduring state's industrial policy which skillfully incorporates the ethical infrastructure depends on the state's ability to impose high principles and inspired standards, coupled with the understanding of the issues at stake" (Choi & Digol, 2010, p. 230).

The ethical framework shall not be an oppressive restriction in which firms must operate; it should rather be the value system governing and organization (Paine, 1994). The board of directors and management must comply with the rules and must lead by example.

According to Shigley (2010), defining the organization's core values, getting input and buy in from employees is a part of setting the example. It is one thing to have personal values; it is altogether different to have agreement on shared values that all will commit to upholding. The core values statements should be woven into the fabric of strategy. Core values help develop a culture that supports, expect and requires integrity in all actions. Integrity is not about telling the truth about yourselves and others, it is about living this truth.

"Values-based leaders engender a high level of trust and respect from employees based not only on their stated values, but also on the courage, determination, and self-sacrifice they demonstrate in upholding them"(Daft, 2007, p. 382).

Integrity compels the leader to do the right thing even when you may not receive any personal gain. This is transformational leadership. Transformational leaders not only inspire their followers with their example, but they also treat employees with dignity and respect (Shigley, 2010).

Setting an example of integrity is also about not abusing privileges and power. "Many leaders feel they are 'above the law' and do not conform to company policies. This will only break down trust and allows employees to follow the bad example" (Shigley, 2010, p. 22).

According to Bannon, Ford & Meltzer (2010, pp. 56-57), several strategic leadership factors can produce a positive ethical culture in an organization:

1. Managers must comply with the rules. If employees see managers taking excessive risks for higher profits, they may interpret the culture to be unethical, and this could result in employee misconduct. Creating clear definitions of acceptable risk and ethical business standards provides guidance for employees to make the right decisions.
2. Character evaluation should be part of hiring, retention, and promotion practices. Using ethic questionnaires in the employee selection process is an excellent tool, but it is also important to build them into the performance and reward system.

3. Firm leadership should convey with actions that the company's reputation and long-term success are more important than short-term profitability.
4. Clearly articulate the consequences of unethical or illegal behavior. Employees must be cognizant that noncompliance can result in punitive action against the company, notably sanctions, fines, and prosecution, potentially leading to imprisonment.
5. Continuous commitment to an ethical culture. Management should regularly examine complaints by employees and other stakeholders to determine whether the company is functioning in accordance with its stated values.
6. Transparency and accountability are keys to establishing trust in the leaders of an organization: open access to information, keeping promises, making decisions openly, accepting responsibility from wrongdoing and rewarding performance that supports transparency and accuracy.

Communication

"Greater transparency, increaser communication, and demonstrating on a daily basis that the organization and its management and employees operate with integrity have never been more crucial to a corporation's reputation and its success" (Verhezen, 2010, p. 193).

According to Kayes, Stirling & Nielsen (2007), building an integrity culture is a difficult process as any other cultural change, since it requires an understanding of the most deeply supported assumptions. They raise the need to follow a three stage process: Understanding the "why" of integrity, understanding the "why not" of integrity and understanding integrity practices.

The first stage refers specifically to the fact that employees must understand why integrity is necessary and to that end organizations must take an integrated approach to educate their employees on the importance of ethics and integrity in everything they do.

This process should start with the communication of the vital facts regarding new ethical guidelines, policies and procedures. It is important that leaders communicate with their followers in a clear and effective manner. An open and honest communication generates trust among employees (Shigley, 2010).

Multiple methods should be used (for example e-mail, website, memo, formal announcement) to share this information and this must take place at all levels of the organization. This means also an open door policy for employees to contact leaders and the opportunity of an honest feedback regarding management, policies or initiatives.

People want to know what is happening in their organization and keeping open communication channels allows for the development of stronger relationships with subordinates.

The message of changing to an integrity culture must start from the top and cascade down across the organization. Every manager must be able to state the organization's case for change, as this increase emphasis and helps employees understand the message in light of their specific work contexts.

"Never miss an opportunity to talk about expectations, good work contributing to goal attainment, behaviors that support the corporate culture and employees that set good examples" (Miller, 2004, p. 3).

Engaging Human Resources

Human Resources may be a powerful tool as a business support system. Engaging them in a variety of initiatives may contribute to building integrity.

Miller (2004, p., 2) states that "by using Human Resources as an integrated business support system, the HR staff can be a key resource to reinforce integrity and ethical behaviors throughout the organization".

Recruiting, hiring, training and others are important components to the overall culture of the organization and ensuring alignment between values and behaviors.

<u>Recruiting & Selection</u>
It is crucial to look for individuals that not only subscribe to the corporate values but also have integrity and are ethical. "By recruiting and hiring employees who can immediately embrace the core values and who possess moral behavior in their private and public lives, this only helps build and organization of integrity. Hire for character and integrity, because you can always teach skills" (Shigley, 2010, p. 22).

The ethical culture of business organizations can be influenced by the college graduates they hire. The teaching of ethical principles is as important as the teaching of other skills sets and critical analysis. However, several research studies reveal that although corporate management has made a substantial effort to follow new ethically-related laws and regulations, business schools have not established ethical expectations to the same degree as that of business firms. Moreover, although some international recommendations are encouraging business schools to emphasize both personal and professional ethical behaviour, sampled business school website focus appears not to prioritize expectations of ethical behaviour with other stated goals. Instead, the "successful" student and the reputation of the college/school of business appear to be the focus (McCraw, Moffeit & O'Malley, 2009).

According to Miller (2004) the conduct interview is the best approach to find individuals that match the organizational culture. We must look for information both on technical skills and on conduct skills and experience, in order to select individuals that show a balance between both. Instead of focusing only on technical skills, the interviewing team can ask properly designed questions in a questionnaire that covers both domains. In this way we can select individuals with high integrity levels and a proven ethical behavior. Special training is required for anyone involved in this interviewing process.

As Pfeffer points out (cited by Shigley, 2010, p. 22) "a great deal of research evidence shows that the degree of cultural fit and value congruence between job applicants and their organizations significantly predicts both subsequent turnover and job performance".

<u>Training</u>
A robust ethical culture can be achieved by implementing training programs and other connecting the firm to its community.

Training new employees should be a priority for any company valuing integrity. This process can help to shape work expectations, produce technical skills and review education in key issues.

According to Lager (2010), training may play an important role if instead of focusing on excellent attendance figures, achieves a deep reflection on available options and helps employees to make good decisions, not only in legal terms.

The most effective ethical training is interactive and includes case studies and the discussion of ethical dilemmas, since it seems more likely for an employee to adopt an ethical alternative in situations in which it is possible to identify which of the available options is ethically sound.

It is more difficult than it may seem, especially when employees are required to think about and balance out competing values, instead of merely applying a specific yardstick to a situation without taking into account the ethic nature of the outcome.

Individuals in organizations look for and gather the information and contacts needed for their tasks and tend to ignore all the information perceived as superfluous. Isolated by this relative lack of external information, their daily behavior at work is restricted to fulfill the organizational routines that do not raise ethical issues. In this setting it may be uncomfortable for employees to have to recognize the presence of an ethical issue, leaving him alone to decide among competing options, having him ask close others or even defending his own conduct. Choosing to recognize ethical issues and acting upon them requires awareness raising and courage, and many people avoid this consciously or unconsciously. Training can be crucial to recognize and solve ethical issues, helping to overcome the tendency to ignore them or hide from them by means of a deontological focus based on rules.

Bannon, Ford & Meltzer (2010) suggest that with an effective ethics training program must cover the following:

1. Training should start during the initial orientation of new employees to give a strong first impression that the organization is committed to ethical behavior.
2. Questioning employees about the information presented during training sessions provides a feedback on how they have understood what has been said.
3. Training programs must be regularly supervised and updated to ensure their have incorporated changes in social values.
4. Ethic training programs may be attended by non-manager employees to learn how to solve ethical issues that may lead to misconduct.

<u>Performance management</u>

Once we have the necessary people behaviors must be reinforced through measurement. In this way values are incorporated into performance management systems.

As Bassett (2008, p. 5) points out, “it is also important for values and ethics to be incorporated in employee performance discussions (…) The emphasis should not only be on what you produce, but also how you produce it. Tying performance to values and ethics reinforces the message that leaders and managers think ethics is important”.

Moreover, this becomes a communication tool and an opportunity to send the message on an ongoing basis. It would be perfect to start a company using this process. If the firm is already operating the performance management system can convey values to the existing workforce and identify which values are not in line with the firm.

<u>Compensation & Rewards</u>

If individuals get a good performance evaluation in their technical skills we give them a wage increase raise. If we measure their contribution on values and behavior as well, and have that impact the amount of their increase and you will get their attention.

A feedback survey process must be built into the performance assessment to ensure that decisions related to salary are made with a wide scope vision of the individual's performance.

Incentive plans should be designed to build checks and balances into the calculation and reward only appropriate businesses. Definitions should include terms that take into account the type of business and are specific about how it has been achieved while keeping corporate values (Miller, 2004).

Career & Succession Planning

A poor recruitment costs money when cancelling or replacing it, but the damage a person can cause in terms of how employees view their company is immense. Promoting a poor recruitment worsens the situation and sends a clear message to the employees.

It is critical to keep assessing the behavior of our high potentials. Leadership reports on values and 'walking the talk' should be carried out on an annual basis. Participants need to be selected by the company (360 degrees) and the individuals may add others to afford those making career and succession decisions a clear perspective (Miller, 2004).

Collaboration

One of the outcomes of the panels on ethics promoted by The Conference Board of Canada to gather the new developments in the field and discuss best practices (Bassett, 2008), was that the ethics office should make an effort to build relations with other divisions or business lines in the organization. Such links are important to promote knowledge and dissemination of the role of such entity across the entire organization.

This also helps the ethics office to better understand the pressures and challenges the different business lines are facing, making it possible to adapt its communications to all the elements in the organization.

An ethical office that understands the specific circumstances of employees can support managers in leading discussions on ethics and integrity, providing practical tools and techniques. These may include worksheets or case studies based on real and relevant organizational examples, which will help managers to address ethical dilemmas and engage employees in ethical discussions.

According to Berenbeim's report (2009), Human Resources and ethics departments of global organizations are joining efforts to get their corporate cultures and management processes to have an incremental approach in ethical issues. However, despite the growing interest in achieving greater collaboration, only twenty per cent of the firms included in the report have achieved a full integration of both departments.

This report shows that collaboration between both departments increases when it comes to drafting the code of conduct or any policy, analyzing risks, or when training and hotline maintenance are involved. Less mutual support is detected in situations in which a joint effort could contribute to building a strong ethical culture, such as in the case of employee screening and compensation.

Many managers acknowledge forming a team covering Human Resources, ethical and legal compliance issues would mean a critical contribution to creating a corporate ethical culture, especially in the areas of mergers and acquisitions, joint ventures and supply chain links. But in their opinion the fundamental requirement for collaboration is that they have to develop mental habits regarding knowledge, analysis and resolution of ethical dilemmas. It seems also necessary that in order to gain the support of the leadership these three perspectives should develop measuring instruments to allow executives and managers to detect the potential impact of such collaboration on the bottom-line.

Reporting of misconduct

The current economic crisis may have facilitated the effort to improve ethical measures. According to the 2009 NBES study reports of misconduct within the company (whistle blowing) are increasing. Why are there more misconduct reports in negative economic environments? The increasing media coverage of corporate misconducts during a crisis may strengthen the awareness of employees on the need to improve ethical standards.

At the same time, in a recession setting employees may have a greater fear of losing their jobs and of retaliations from managers and colleagues if they report about corporate misconduct such as squandering, fraud and abuse. The retaliation measures specifically mentioned in the NBES (2009) include exclusion from decision-making and activities by the management, verbal abuse, not being promoted and almost losing the job.

Although some prominent internal reports on corporate misconduct have been recognized as being very positive[8], the decision to speak out is not an easy one. There are several reasons for which employees may not report misconducts: believing that their actions will not lead to any significant action or change, fear of becoming isolated in the company ranks, fear of retaliations from the management, all of it leading to poor success chances or loss of the job.

Firms can encourage internal reports by providing employees with a safe place to look for counsel and ask questions. Examples of this are hotlines, allowing employees to make anonymous calls reporting observed misconduct.

A further example would be establishing the office of ombudsman in a business ethics program. This position should be independent, neutral and informal. For it to be independent, it cannot be part of the management. It is neutral because it does not act as attorney of either the firm of the employee. And it is informal because this employee is not part of any formal claim process. In most cases, the ombudsman can only issue misconduct reports with the explicit consent of the reporting source.

6. CONCLUDING REMARKS

The current crisis is hitting western economies hard and has evidenced the breakdown of the present economic model, in which Economy and Ethics take diverging routes. Irresponsibility and a lack of values are at the origin of the current recession. Society is demanding a new business and economic model based on ethics, transparency and

[8] The well-known Enron case started when an employee, Sherron Watkins, sent a letter to her manager Kenneth Lay warning about accounting irregularities she had detected and that could put the company at risk.

solidarity, and therefore one of the main challenges organizations are facing is how to ensure employees act ethically and with integrity.

Management of organizations requires a certain ethical behavior, in order to generate the trust needed for economic activities. Economic transactions are based on trust and the events of recent years have meant a severe blow on it. An evidence of how important this is can be found in the recent implementation in firms of good governance codes to increase transparence and integrity in business operations.

Europe has been defending the importance of the values of this new business approach since the Lisbon Summit in March 2000; it has committed itself to competitive and at the same time socially responsible business model. The European Commission is encouraging firms in this time of crisis to pay a special attention to corporate social responsibility. Fostering this type of policies can have in the long term substantial benefits, both economic ones, resulting from better management and employee engagement, and in terms of image and reputation.

To date the debate focused on the convenience of implementing CSR policies in view of the high costs of becoming “socially responsible”. Reality has shown that the price paid has been much higher. In this post-crisis scenario in which business values are being redefined, being “socially responsible” is not a fashion anymore, it has become something urgent. CSR policies would be therefore an effective way to implement an ethical organization culture that ultimately would render mandatory regulations unnecessary.

In the process we consider that an ethical leadership is essential based on the influence of organizational leaders on the behavior of the people they manage and their key role in implementing and disseminating a certain organizational culture, in providing an environment that supports ethically sound behavior. The top management is faced with the challenge of developing an integrity culture that goes further than legal compliance, as part of their strategic planning.

We have focused on the process of implementation of a strong ethical culture in the organization, addressing the key issues seeking to make this happened, the suggestions to build ethical behavior and integrity in organizations, the actions that can prevent the integration of ethics and integrity throughout organizations, the type of leadership required, and the main role of the Human Resources Department.

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STRATEGIES FOR ETHICS MANAGEMENT			
CHARACTERISTICS OF COMPLIANCE STRATEGY		**CHARACTERISTICS OF INTEGRITY STRATEGY**	
Ethos	Conformity with externally imposed standards	Ethos	Self-governance according to chosen standards
Objective	Prevent criminal misconduct	Objective	Enable responsible conduct
Leadership	Lawyer driven	Leadership	Management driven with aid of lawyers, HR, others
Methods	Education, reduced discretion, auditing and controls, penalties	Methods	Education, leadership, accountability, organizational systems and decision processes, auditing and controls, penalties
Behavioral assumptions	Autonomous beings guided by material self-interest	Behavioral assumptions	Social beings guided by material self-interest, values, ideals, peers
Implementation of compliance strategy		**Implementation of integrity strategy**	
Standards	Criminal and regulatory law	Standards	Company values and aspirations, social obligations, including law
Staffing	Lawyers	Staffing	Executives and managers with lawyers, others
Activities	Develop compliance standards, train and communicate, handle reports of misconduct, conduct investigations, oversee compliance audits, enforce standards	Activities	Lead development of company values and standards, train and communicate, integrate into company systems, provide guidance and consultation, asses values performance, identify and resolve problems, oversee compliance activities
Education	Compliance standards and system	Education	Decision making values, compliance standards and system

(Paine, 1994, p. 113)