
18. A corporate governance perspective on organisational integrity

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Corporate governance is about foreseeing and effectively assessing an uncertain and occasionally volatile future. Corporate governance is about directing and creating a meaningful future. It is about the way power is exercised by a board of directors over corporate entities (Tricker, 2023). The notion of corporate governance finds its etymological meaning in the Latin *gubernare*: steering the ship away from rocks into open waters. Corporate governance inherently implies a pragmatic, formal legal and institutional view of the use of power by the board of directors to enable real progress and effective implementation of decisions.

In addition of a formal approach of installing an ethical infrastructure in organisations, an organisation also relies on more informal infrastructures that constitute ethical behaviour (Tenbrunsel, Smith-Crowe & Umphress, 2003). One of these informal factors is the notion of integrity which finds its origin in the feeling of empathy for the other. That feeling of compassionate empathy initiates a conscience which distinguishes right from wrong, and can be seen as the basis for the notion of integrity (Carter, 1996; Hume, 1739, 1751; Smith, 1759; Timmons, 1999). This interpretation assumes that morality and the informal notion of integrity in particular involve a reference to feeling or sentiment that is completely absent in the formal corporate governance practices, especially the dominant agency theory that presupposes a selfish rational agent (Berle & Means, 1932; Fama, 1980; Friedman, 1970; Jensen & Meckling, 1976). For corporate governance to be effective, I argue that these formal practices need to be infused by the notion of integrity – which need to be assessed in further research. Indeed, these preliminary thoughts claim that both corporate governance and integrity need to be aligned to be effective. Institutional governance without virtuous integrity won't go beyond mere legal compliance, whereas the good intention of integrity without the implementation of proper governance structures, processes and practices would likely remain an ethical ideal without influence or formal power.

In the first section of this chapter, I assess the strengths and weaknesses of the prevailing agency theory within corporate governance as applied in most listed but also non-listed organisations. The current prevailing agency theory needs to be revised or enriched in order to allow a stronger alignment between a legal interpretation of fiduciary duties within governance and a normative view of what organisational integrity could mean for the organisation. In other words, legality and compliance need to be aligned with legitimacy and socio-ethical reasoning in business. As consequence, the fiduciary duties of care, loyalty and prudence may need to be reinterpreted to facilitate this much needed legal-legitimacy alignment.

In the second section of this chapter, I explain why integrity at boards is necessary to make wise or responsible decisions. My argument is that both formal governance structures and informal integrity will reinforce each other to install a more ethical infrastructure in organisations. The required organisational integrity of the board and its CEO exemplifies a beacon for employees, investors, customers and the community at large (Gardner et al., 2005;

George, 2004; George & Sims, 2007; Ilies, Morgeson & Nahrgang, 2005). Only by embracing a clear meaningful purpose, a clear link can be established between cognitive institutional governance practices and ethical individual normative values, making those organisations more than money-making machines, but places to thrive (Kennedy-Glans & Schulz, 2005). Organisations may then fulfil that promise of creating value while also providing meaningful purpose and sense to all those involved in the organisation. This alignment between legal or legalistic governance practices and the legitimacy of socio-ethical objectives underpinned by integrity aims at a transition from smart to wise decision-making – an extremely relevant and timely topic in business today that is not yet enough explored in academic management decisions or leadership research (Clarke, 2004; Macey, 2013; Schanzenbach & Sitkoff, 2020; Verhezen, 2023).

COMPLYING WITH INSTITUTIONAL CORPORATE GOVERNANCE ENHANCES SMART DECISION-MAKING

The main function of an effective board is to safeguard the organisation from negative threatening risks and to provide the resources to exploit current assets to their fullest potential while exploring and therefore investing in new ventures or business opportunities. Corporate governance establishes the identity of the legal power within the organisation and how it can be used to direct and control. Currently, the debate is raging whether organisational value refers to optimising a risk-adjusted return only, or whether other non-financial objectives should become a mandatory board duty as well (Freeman, 2010; Rose, 2007; Stout, 2012, 2013; Schanzenbach & Sitkoff, 2020). If corporate governance is interpreted in a legalistic manner only, as the dominant agency theory does, boards won't see the relevance of normative decision-making, let alone enhance desired socio-ethical behaviour. The board is seen to be only accounted for complying with the legality interpretation of their fiduciary duties of sole interest to optimise the capital provided. Today, external pressure on boards is demanding more socio-ethical responsibility beyond mere accountability of these fiduciary obligations. In other words, the primacy of shareholders' power is under scrutiny.

I attempt to align the formal agency theory with an ethical notion of integrity – opening up to a more normative perspective. Such alignment would hopefully result in a practical win-win situation. But to succeed, more research will need to be undertaken to see the benefits of such a holistic approach. Such empirical research will potentially convince mainstream financial economists and corporate governance experts to align the theory of agency with an increased necessity of ecological-ethical organisational objectives.

The Agency Theory – Aligning Shareholders' and Management Claims – To be Revised?

The traditional agency theory of corporate governance sees the firm as a nexus of contracts between free and rational individuals optimising their own interests (Fama & Jensen, 1983; Friedman, 1970; Jensen & Meckling, 1976; Jensen, 1986; Lorsch & Clark, 2008). Corporate governance is about how a set of promises to investors, workers, suppliers, customers, local communities can be institutionalised, whether by legal forms or more informal arrangements (Macey, 2008; Tenbrunsel, Smith-Crowe & Umphress, 2003). Governance may not prevent

all misconduct or misdeeds, but it can actually improve the way an organisation is governed and managed to deploy assets and resources in the most efficient and effective way, and possibly prevent some excessive threatening risks on the downside (Agrawal & Chadha, 2005; Aguilera & Cuervo-Cazurra, 2004; Carver, 2010; Charan, 2005; 2009; Chew & Gillan, 2009; Clarke, 2007; Monks & Minow, 2004; Rezaee, 2007).

From an agency theoretical perspective (Bebchuk, Cohen & Ferrell, 2004; Beiner, Drobetz, Schmid & Zimmermann, 2004; Fama, 1980; Fama & Jensen, 1983; Jensen, 1986, 2002; Schleifer & Vishny, 1997), effective governance should aim to increase the equity value by better aligning incentives between management and equity holders and between minority and majority shareholders. A notion like integrity does hardly have a place in this agency theory in which rational selfishness is assumed to be regulated by legal compliance to codes. Other governance theories emphasise an empathy for those who have a stake in the organisation like employees and the community. Integrity as an expression of such a feeling of empathy directly connects with those other stakeholders. Moreover, the function of a board as a guardian or steward requires that normative individual characteristic of integrity.

From a stakeholder perspective (Freeman, 2010), resource-based theory (Hillman, Cannella & Paetzold, 2000; Hillman & Dalziel, 2003; Pfeffer, 1972; Pfeffer & Salancik, 1978) or network perspective (Peng, 2003; Peng & Zhou, 2005), effective governance provides policies that produce stable and safe employment, provide an acceptable standard of living to workers, mitigate risks for debt holders, provide reliable products and services to customers, improve the community and acknowledge the importance of ethical and ecological objectives or constraints. Although those different perspectives may partially overlap, and although they hardly can be maximised at once according to Jensen (2002), it may be argued that there is no fundamental contradiction between such views in the longer term (Khanna, Kogan & Palepu, 2006). Despite the theoretical differences between these governance perspectives, they can be assumed to be complementary (Donaldson & Preston, 1995; Freeman, 2010; Porter & Kramer, 2006 & 2011; Verhezen, Notowidigdo & Hardjapamekas, 2012; Vogel, 2005). This complementary aspect potentially allows a possible alignment.

The influential agency theory – in contrast with the other corporate governance perspectives – emphasises the discrepancy between owners and management. In an initial entrepreneurial and growth phase, organisations were run by their founders. With banks and capital markets providing the funds to finance the growth of some of those organisations, professionals were subsequently hired to manage those big corporations on behalf of the owners. More often than not, the objectives of these professional managers and the firm's owners' goals differ, creating an alignment or agency problem. That is where corporate governance fulfils its traditional regulating and check-and-balance role (Dimma, 2002; Huse, 2007; Wallace & Zinkin, 2005).

Those professional managers and board members achieve considerable power due to access to asymmetric information a potential agency–principal problem. The prevailing agency theory claims – as implemented in almost all major financial markets in the world – that there exists a contractual agreement between the principal or owner and an agent – or executive, top manager. “Agency theory involves a contract under which one or more persons (shareholders) engage other persons (the directors) to perform a service on their behalf which delegates some decision-making authority to the agent. If both parties to the relationship are utility maximisers there is good reason to believe that the agent will not always act in the best interest of the principal” (Jensen & Meckling, 1976: 307).

How to align the objectives of the professional management experts who aim to optimise their own remuneration package with the goal of providers of capital who want to maximise the best return on the invested capital? A possible solution to align the objectives of owners and executives is conceptually bridged by making those professional executives owners themselves through the provision of stock options (Farinha & de Foronda, 2005; Jensen, 1986, 2002). The stock options for top management are thought to be an incentive to align their own interests with those of their shareholders. Nonetheless, this presumed alignment creates an additional potential challenge: short-term stock performance is now the overarching objective that is used to calculate the financial value of these bonuses and stock options (Bebchuk, 2009, 2021; Bebchuk, Kraakman & Triantis, 2000), potentially undermining long-term sustainable value that safeguards the economic competitive sustainability of the organisation (Gillan & Starks, 2003; Krznaric, 2020; Salter, 2012; Serafeim & Grewal, 2019). How then to reconcile or align this conundrum of short-term versus longer-term perspectives? And when reference shareholders need to be distinguished from activist shareholders or even short-term speculators, it complicates the discussion of which shareholders' perspective to take. Adding to the complexity is the distinctive and often unique governance structures and ownership at state-owned enterprises and family-based enterprises (Claessens et al., 2002; Claessens & Yurtoglu, 2013; Demsetz & Villalonga, 2001; Gompers et al., 2003; Lozano et al., 2016; Verhezen & Martin, 2017).

At the International Finance Corporation, one argues that the board's fiduciary duty is aimed at the organisation (and not just to the shareholders), guaranteeing the implementation of the generic governance principles of transparency, fairness, accountability and responsibility (Verhezen, 2015). Without understanding, contextualising and reinterpreting those four generic principles and without integrity, the governance principles will remain a compliance-and-tick-the-box-exercise without being able to exercise a more holistic perspective. Research has proven that an institutional and especially legal context – a common law judicial versus civic legal system – determines how corporate governance is implemented and protects individual (shareholders') property rights (La Porta et al., 1999, 2000, 2002).

Governance, indeed, will not prevent all misconduct or misdeeds, but it can actually improve the way a corporation is governed and run (Kurtzman & Yago, 2007; Kurtzman, Yago & Phumiwasana, 2004; Lawler, Finegold, Benson, & Gonger, 2002). I would argue that successful companies applying good international corporate governance practices are those who have diligently incorporated and integrated (1) the protection of basic shareholder rights, (2) the prohibition of insider trading, (3) disclosure of board and top managers' interests and adherence to international disclosure standards, (4) a respect for the legal rights of main stakeholders of the company while acting responsibly within a wider community context, (5) an independent audit committee that regularly meets, (6) the norm that all shareholders should be treated fairly by the board, (7) the expected disclosure of capital structures that enabled certain shareholders to obtain disproportionate control, (8) providing good access to information by the board members, and (9) the allowance of fair and timely dissemination of information to all relevant parties involved (Bhagat & Bolton, 2008; Carter & Lorsch, 2004; Dimma, 2002; Doidge, Karolyi & Stulz, 2007; Gelter, 2009; Huse, 2005, 2007; Yadong, 2005). In other words, smart boards who aim to optimise shareholders' value according to the agency theory do not have to ignore the legitimate concerns of committed stakeholders. But that may require some reinterpretation of the legal approach of this agency theory.

Reinterpreting the Fiduciary Duties of Care, Loyalty and Prudence

The formal legal interpretation of the agency theory does not seem to suffice to guarantee the expected outcomes – which I attribute to a conceptual misconception of powerful “rational” utility maximising board members, who may not really value integrity in such a powerful unforgiving competitive world.

If the board’s main first task is to monitor, control and oversee the performance of and the way decisions are made by top management securing the continuity of the organisation, why do we still have so many cases of outright failure due to non-functioning corporate governance (Lin & Wang, 2008; Lorsch & Clark, 2008; Verhezen & Abeng, 2022)? There are plenty of cases in both the Anglo-Saxon as well as in Continental Europe and Asia of malfunctioning boards: Enron, WorldCom, Parmalat, VW Dieselgate, and the list is long. Too long...

Secondly, the non-executive directors at boards provide valuable advice and mentoring to top management (Chew & Gillan, 2009; Huse, 2005, 2007; Larcker & Tayan, 2011). In this advisory capacity, the board pays attention to guide top management’s decision that balance risk and reward, whereas in its oversight capacity, the board aims to monitor management and ensure that it is acting in the best interest of the company’s long-term goals. The board is a governing body elected to represent the interest of shareholders and the company at large (Charan, 2005; Charan, Carey & Useem, 2014). But should the board ignore the legitimate concerns of potential ecological risks in the far future and close eyes for legally acceptable but most probably rather slippery ethical behaviour?

A third role of a board is to secure leadership succession within the organisation by developing and maintaining a leadership and managerial talent pool within the organisation. Focusing too much on short-term self-interest may preclude boards to prepare for their own but inevitable succession. Admittedly, corporate power is crucial in governing an organisation. And it’s psychologically hard to let go, especially in an environment where you can be easily pushed aside by potential competitors (Pfeffer, 2015) – complicating the CEO’s succession.

Fiduciary duties of a board are an attempt to codify and institutionalise these tasks and to implement the major principles. The fiduciary duty of any board member usually includes a duty of care that requires directors to make decisions with due deliberation, a duty of loyalty that addresses conflicts of interest whereby the interest of shareholders should prevail over the interest of a director, and a duty of candour that requires that management and the board inform shareholders of all information that is important in their evaluation of the company and its management (Bainbridge, 2008; Bebchuk, Cohen & Ferrell, 2004; Charan, 2005 & 2009; Macey, 2008, 2013).

Primarily, a board as a trustee is assumed to create trust by guaranteeing a form of honesty or trustworthiness that includes the disclosure of financial and non-financial information and being transparent about processes behind achieving (audited) performance. Yet, boards should also be focused to the future, taking an active role in discussing overall strategy with top leadership while at the same time coaching them in preparing the execution of the strategy. Obviously, their traditional main function of avoiding agency problems by monitoring the CEO and the top leadership team is still a major part of their fiduciary duties. That supervision includes hiring the appropriate CEO for the firm *hic et nunc*. Equally, it also involves firing the CEO if deemed necessary in case of ethical and or legal violations, or consistent underperformance of the firm vis-à-vis the industry average.

This may sound straightforward and rather easy. In reality, however, more than 70 per cent of the board's time is focused on auditing and compliance issues (Leapen et al., 2021; Ramani & Saltman, 2019; Wong, 2011). In other words, boards spend a lot of their valuable time verifying past activities, be it in terms of complying with the international and national accepted accounting standards, or other legislative and legal requirements – especially when it concerns a public listed company. Aside from the banking industry which always has been heavily regulated in comparison with other sectors, we believe that compliance remains a crucial part of good corporate governance, but the real contributions of an experienced board is to prepare the organisation to remain competitive in the future, to a futureproof organisation. In essence, corporate governance is meant to reduce risks and to optimise opportunities. Both are forward looking. Auditing, on the other hand, is meant to “verify” the annual historical financials according to the GAAP and increasingly also non-financial ecological, socio-ethical and governance (ESG) metrics. The strategic foresight beyond mere compliance and auditing should be part of the focus of a board indeed.

Currently, one of the hotly debated topics within fiduciary duties is the increasing demand to disclose sustainability ESG goals and metrics. The origin of this ESG-investing is found in ethics and ecological risk assessment. Within a US-based common law context, one could argue that the shareholders' perspective could be slightly amended to include an ESG-investing view as long as it is formulated as a risk-adjusted approach. A survey indicates that 22 per cent of the corporate boards believe that ESG may violate their primary fiduciary duties, whereas 47 per cent see potential conflicts between their main fiduciary duty to protect shareholders' interest versus – may I add legitimate – stakeholders' concerns (Schanzenbach & Sitkoff, 2020: 385). As long as the materiality impact of this ESG-investing can be proven to generate risk-return ESG metrics, a board can slightly broaden the shareholders' perspective, benefiting both shareholders and stakeholders (Porter & Kramer, 2006, 2011; Serafeim & Grewal, 2019). In Europe, the regulator takes a more stakeholder-orientated approach, potentially protecting external stakeholders, which is in line with the civic law system context. The debate between IASB (focusing on financial accounting standards) and the ISSB (emphasising the materiality of non-financial risks and objectives) is ongoing, aiming to come up with a minimal integrated and globally acceptable approach that hopes to standardise this shareholder versus stakeholder debate. In other words, I argue that the traditional agency model based on rational selfish agents is not well prepared for a futureproof organisation.

Do We Need a Different Leadership and an Amended Governance Model?

What kind of leadership do these boards need in this new reality of digitisation and demand for more sustainability? The argument put forward is that this kind of new leadership is supposed to make smart but above all also wise decisions – directly linked to a high level of integrity that is often associated with a broader perspective in which negative externalities caused by firms are taken seriously by their board (Lorsch & Clark, 2008; Margolis & Walsh, 2001; Porter & Kramer, 2011; Schanzenbach & Sitkoff, 2020; Serafeim & Grewal, 2019; Rose, 2007; Verhezen, 2023).

The argument goes that boards should not just focus on the legal compliance and auditing disclosure requirements, but should also address the steering of the organisation toward a promising and meaningful future. That will require an amended strategic vision, infused by socio-ethical values. It is also an indication for board members to remain vigilantly humble.

Important for this discussion is that cognitive intelligence and socio-ethical consciousness should be clearly distinguished (Tomasello, 2019; Verhezen, 2023; Vogel, 2005; Young 2007).

Due to the increased complexity of global and integrated supply chains in business, non-financial variables are affecting the competitiveness and legitimacy of the firm. Hence the importance of boards to prepare and maintain a narrative that also provides meaning and purpose to the DNA of the organisation, and this is directly linked to normative ecological and socio-ethical goals to reduce some of those negative externalities or take advantage of new socio-ecological inspired trends. By embracing this socio-ethical pathway, boards show a clear organisation's direction – without necessarily forgoing the risk-adjusted return optimisation (Schanzenbach & Sitkoff, 2020). Despite the prevailing agency theory within (Anglo-Saxon-orientated) boards to maximise the return on capital, some institutional US- and UK-based investors that matter clearly identify this sustainable competitive advantage as a key factor in making decisions to hold, increase or disinvest in a company. In other words, those investors understand that a holistic thinking board may provide a higher chance to create value over a longer term (Gelb, McCarthy, Rehm & Voronin, 2023).

Aligning short-term with a longer-term perspective also inspires wise leaders to acknowledge the importance of (1) ethical and ecological normative values – i.e., broadening to both stake- as well as shareholders, and/or (2) an explicit long-term perspective that is added in the decision-process. These values often express external socio-ethical relations about respect for engaged people and a planet in harmony – aspects that can be brought back in essence to the feeling of empathy, resulting in a higher level of integrity, as David Hume (1751) and Adam Smith (1759) have indicated. This also implies a sense of intergenerational justice (Krznicaric, 2020; Raworth, 2017). Wising up – engrained in the notion of virtuous integrity – contains (1) the ability to simultaneously think in terms of short-term results and long-term vision and (2) to optimise the shareholders' value while extending the fairness principle to those who have a real stake in the organisation such as employees, customers, suppliers and potentially the community in which it operates, all relevant and concerned stakeholders.

Most likely, this capability to hold two-time perspectives at the same “time” and keeping different and sometimes opposing goals of different “stake”-holders in mind may be one of the more challenging paradoxes for any board member who is accounted for to optimise the annual performance while being also responsible for an eco-social sustainable organisational future (Freeman, Martin & Parmar, 2020; Strebels, Cossin & Khan, 2020;). These “informal” ecological and socio-ethical goals should be aligned with and integrated into more formal strategic financial performance objectives. Corporate governance would enormously benefit from including the informal power of integrity among boards. Let's turn to the notion of integrity that most probably determines the informal ethical culture at boards and firms.

LEGITIMACY OF THE BOARD'S BEHAVIOUR THROUGH INDIVIDUAL AND ORGANISATIONAL INTEGRITY

Corporate governance is about institutionalised formal structures, processes and power positions. In that sense, governance also formulates codes of conduct to distinguish ethical from unethical and or illegal behaviour. The ethical infrastructure of an organisation is based on documented and standardised procedures and codes (Tenbrunsel, Smith-Crowe & Umphress,

2003). It is the function of corporate governance to institutionalise those formal structures. For codes of conduct and ethical training to have a real impact on the behaviour of its agents, they must be consistent with more systemic ethical elements, such as the organisation's informal organisational climate and in particular integrity at the highest level (Aguilera & Cuervo-Cazurra, 2004; Roe, 2002). If such congruence is missing between the formal and informal elements, then employees likely receive a mixed message, substantially reducing the impact of these formal codes of conduct. Without an informal ethical organisational culture – underpinned by the principles of integrity and honesty – these formal structures would not be effective or could even be counterproductive (Tenbrunsel, Smith-Crowe & Umphress, 2003). Or differently stated, without (informal) integrity, wise leadership is impossible to be effective at any board, despite the implementation of formal governance structures (Rezaee, 2009; Roberts et al., 2005; Stout & Li, 2004; Tenbrunsel, Smith-Crowe & Umphress, 2003; Verhezen, 2023).

How to infuse formal structures with some vitality that stimulates ethical behaviour? Corporate governance without integrity is soulless or occasionally counterproductive. Integrity without the foundational structures and processes of corporate governance may be vitally ethical, but likely ineffective. I will argue that the notion of integrity provides such vital legitimacy.

Organisational Integrity Aligning Legal Compliance and Organisational Culture?

In the first section of this chapter, I argued that corporate governance is a formal way to steer the organisation and their agents away from unethical and illegal behaviour. In particular, complying with a formal ethical code of conduct has been interpreted as a way to reduce that agency problem by specifying the ethical conduct of its organisational members (Weaver, 1993; Weaver, Treviño & Cochran, 1995 & 1999). Such rules-based or even principle-based code provides some guidelines to the agents and probably legitimatises the discussion of ethical behaviour (McDonald, 2000). But these formal codes need to be infused by actual informal examples of virtuous behaviour to build genuine trust in these organisations (Rouiller & Goldstein, 1993; Tracey, Tannenbaum & Kavanagh, 1995; Treviño et al., 1999).

The glue at any boardroom functioning is the trust among the board members, exemplified by the chair. That person is assumed to feature a high level of integrity, be knowledgeable of and experienced in the industry, and to have the empathy and social or emotional intelligence to unify the board's diversity and differences. The chair installs an atmosphere of critical dialogue and discussion, avoiding group-thinking. The litmus test at such a board is being trustworthy as a group and showing individual virtuous or courageous integrity, especially in times of crises and adversity.

Integrity literally means to have the quality of being whole and complete. Integrity is often defined as the practice of being honest and showing a consistent and uncompromising adherence to strong moral and ethical principles and values that you refuse to change. In ethics, integrity is regarded as the honesty and truthfulness of one's actions. Organisational integrity implies that the entire organisation is held to standards of integrity. Integrity discerns what is morally appropriate and what is not, implicitly implying consideration of others with whom one lives in a community or works in an organisation (Carter, 1996; Paine, 1994; Srivastva & Barrett, 1988). Personal integrity can be expanded into the social domain, perceived as "organisational" integrity (Treviño-Rodríguez, 2007) becoming a social virtue which empha-

sises a connectedness with a larger purpose, especially in “defining moments” (Badaracco, 1997). Organisational integrity creates informal standards to be aligned with formal corporate governance foundations that can provide the cultural cohesion for continued and committed organisational life (Verhezen, 2008a, 2010).

In that sense, integrity reflects a certain professional responsibility and competence, emphasising a right attitude to approaching a dilemma, rather than specific moral characteristics. Such an attitude may lead to behaviour which complies with what one can expect of a virtuous and trustworthy board member, but who is also able to communicate and demonstrate these ethical values superbly. Traditionally, integrity requires a perceived degree of congruence between the values expressed by words and those expressed through action (Simons, 2002). A divergence between words and praxis potentially renders corporate leaders untrustworthy which undermines their credibility and their ability to use words to influence actions of their subordinates in an organisation.

Most multinational organisations combine a compliance and integrity-based strategy to address the issue of unethical behaviour (Rose, 2007). It should not surprise us that there seems to be a consensus that integrity-based rather than compliance-orientated strategies may provide superior results in tackling moral dilemmas (Cloud, 2006; Paine, 1994; Treviño et al., 1999).

Integrity functions as an internal moral compass – i.e., internalised rules and regulations overviewed by one’s personal conscience – that constitutes moral understanding of what needs to be done (Paine, 2003: 37–61). A moral compass directly affects the goals that drive behaviour. The normative Aristotelian interpretation of integrity as *aretè*, however, does not provide managers or board members a clear codex or decision tool (Verhezen, 2008a). That is where codes of conduct as part of corporate governance come in: providing a formal structure that aligns it with organisational integrity. In addition, a pragmatic reinterpretation of integrity allows corporate leaders to manoeuvre in an increasingly complex and ambiguous business context to “honour their word”, even if they cannot keep it to its fullest sense (Erhard, Jensen & Zaffron, 2010).

Being honest and wise is a social praxis; it is also part of a discursive structure (Habermas, 1998, 2005). Managerial wisdom is an ability that enables us to minimise our cognitive limitations of our bounded rational capabilities by relying on an intuitive process based on values as in integrity. Practical managerial wisdom is not a tick-the-box-compliance exercise or an ideology, but a continuous search by trial and error to improve leadership that seeks operational effectiveness to produce great products and services at competitive prices. Wisdom is here defined as the praxis to act rightly, depending on our ability to perceive the situation accurately, to have the appropriate feelings or desires about such a situation, to discern and reflect about what is appropriate in this particular situational context, and to act upon it (Hays, 2003; Schwartz, 2011). Moreover, such wisdom is fuelled by a continuous learning process that acts, re-acts and pro-acts in particular situations, based on the experience gained, the knowledge acquired in the process and the integrity needed to guide it. Hence why McKenna, Rooney and Boal (2009) ascertain that managerial knowledge without integrity can be dangerous and dreadful while integrity without managerial knowledge is rather weak and not focused. Similarly, my argument is that corporate governance without integrity is a mere procedural process, whereas integrity without being strongly embedded in corporate governance practices remains fuzzy and without any form of formal institutionalisation.

Indeed, the argument boils down to the proposition that organisations and their leaders will need to adhere to best corporate governance practices, infused by a sense of trustworthiness generated by virtuous integrity. Board members and their top executives need to become guardians, stewards and custodians of the organisation, whose reputation and foresight could benefit the organisation they are mandated to steer and to lead. It is about relationship-building between the firms and loyal customers, suppliers, and committed employees, and following the ethical compass that keeps boards and executives from going astray.

Organisations whose strategy aligns economic objectives with ethical and environmental goals may be able to foster organisational integrity. In the pursuit of non-financial objectives, integrity adds societal value to the institution, while increasing its overall standing within and thus relevance for society (Margolis & Walsh, 2003; Neves & Story, 2015; Nonaka & Takeuchi, 2019 & 2021; Reddy, Locke & Scimgeour, 2010; Roberts & Summerville, 2016; Trevinyo-Rodriguez, 2007; Verhezen, 2008b). Some may even argue that boards, characterised by a high level of integrity, may foster a competitive edge (Crossan, Furlong & Austin, 2023).

Wise Leadership with Integrity Transcends Mere Legal Compliance

Integrity is “not so much a character trait as a sophisticated, reflective, constant state of awareness that results in an attitude that encompasses moral creativity. It refers to a reasonable and analytical decision-making process based on envisaged organisational values and principles that simultaneously function as an ideal and a constraint” (Verhezen, 2008b: 137). The integrity of executives and board members – having a broader or more holistic perspective – is expressed in making wise(r) decisions (Nonaka & Takeuchi, 2019; Thiele, 2006; Verhezen, 2023). Integrity belongs to a very distinctive learning process beyond the intellectual and risk component that one teaches at Business Schools.

Organisations create value – monitored and supervised by the board of the organisation – by reducing the errors and uncertainty within the organisation, by being insightful and pursuing innovative (technology) solutions, and finally by being resilient in case of unavoidable failures or in case of adversity or a crisis. Infusing values into the organisation, however, enables the board to embrace trustworthiness whereby integrity provides a more holistic vision of what the organisation stands for (Calhoun, 1995; Koehn, 2005; Van Liedekerke, 2005).

Wise decision-making, therefore, brings an additional set of critical variables into the equation of decision-making. Wising up enables managers to be commercially savvy, to make reasonable smart decisions for which boards are accounted for by the shareholders, but also to commit to responsible behaviour. Non-financial criteria appealing to the responsibility of board members need to become part of such a new mindset – beyond the legal interpretation of their fiduciary accountability. Values and responsibilities are part of the decision-making process. They count not only in optimising stockholders’ value, but also in satisfying legitimate stakeholders’ concerns.

Smartness is linked to various forms of intelligence and knowledge. It is constituted by the cognitive element, as well as the ability to look forward and to see the often still fuzzy trends in the future, requiring a minimum level of risk intelligence. Board members are expected to assess specific risk-orientated activities. Indeed, they should have a broad enough knowledge and expertise to contribute to the bigger picture of entangled problems and challenges at the

board, but this member has also a specific “deep” capability or competence in a particular area (Moyo, 2021).

To a certain extent, a smart leader will be emotionally attuned to have a minimal self-control and a positive affective attitude to the other members of the group. Emotional regulation helps us to focus on what is important, essential in any smart judgement. Responsible leaders emphasise the important notion of relationship-building based on empathy and by extension integrity – on top of securing a proper return on investment – to survive over a longer period.

The cognitive process to intellectually understand something is to be supported and complemented by a form of societal understanding (Tomasello, 2019). Similarly, foundational corporate governance practices at the institutional process level need to be supported and energised by a socio-ethical phenomenological notion of virtuous integrity. Humans can only really thrive in a moral community. The ontogeny of uniquely human cognition is fundamentally relational. It is this relational component that has led to forms of collaboration and cooperation without which humans would not have survived (Nowak, 2006). Being mindful of those relational and cognitive components helps to make or improve our judgements.

Integrity implies the notion of empathy (Shell, 2021; Thompson, 2007, 2017) that often results in a form of caring for those involved in the business. Organisational integrity refers to the way executives and top leadership at boards (un)consciously deal with ethical values in a particular business context – that admittedly can change over time and space. Any judgement by a board member can be seen as the result of the interaction between the unconscious intuitive powers and our rational conscious mind (Siegel, 2017, 2018; Thompson, 2007, 2017). Indeed, any fair judgement is a balancing act: reason is a co-participant, not the only or final arbiter of good judgement (Thiele, 2006). By being conscious and becoming more mindful, we develop a more sensitive “conscience”. This conscience underpins integrity. Wise decision-making encompasses various forms of intelligence combined with conscience. Being more conscious – enhancing the capability of heightened conscience – underpins integrity, standing by the accepted moral practices and individual principles.

We can therefore interpret integrity as (1) feeling concern for others, as well as (2) concern for justice and fairness. The notion of integrity is able to “regulate” and harmonise those intentions in a way that benefits the organisation over a longer period. However, following ethical values requires effort and energy, especially in ambiguous unclear situations.

Responsible leaders need to help their teams, managers, peers and board members to broaden their perspective, giving them the tools to become more mindful and the courage to address the difficult grey areas that require a commercially viable (Oberholzer-Gee, 2021) but also a fair and responsible decision (Badaracco, 2016; Koehn, 2005; Lennick & Kiel, 2005; Simons, Leroy, Collewaert & Masschelein, 2015). These leaders need to think as human socio-relational beings whose decisions may affect not only themselves, their organisation and their subordinates but also the communities in which they operate. In a certain way, making responsible or wise decisions as a board member also implies that one is more mindful and conscious about the consequences and stakes involved, and caring for their stakeholders (Gössling & Van Liedekerke, 2014; Van Liedekerke, de Moor, Vanwalleghem, 2007).

In a nutshell, smart leaders turn into wise leaders when they can help themselves and others to resolve the difficult socio-ethical dilemmas we all face in business. Over a longer period, the “return on responsible behaviour” can be significant, because customers and other stakeholders would trust such an organisation (Lennick & Kiel, 2005; Margolis & Walsh, 2003). “Doing good” is not necessarily or automatically resulting in higher profitability, both short and long

term. Business is much more complex and difficult than adding or deducting some variables or notions into the economic equation or in the business model. Doing good can result in doing well – if the strategy is well thought through and executed – but there is no guarantee at all (Hansen, Ibarra & Peyer, 2013).

It is now common sense that holders of shares should be rewarded for taking significant financial risks in providing capital without any guarantee. However, the legal community has awarded ownership in return for taking such risks, with allegedly full legal voting and cash flow rights in the company. A debatable decision, nonetheless, according to several legal scholars (Stout, 2012, 2013). Today, the shareholders are perceived to be the legal and legitimate owners of a business entity. It has been different before, and it may be again ... And although stockholders may be seen as legitimate owners of a business today, they and their boards definitely won't automatically provide legitimacy to their business without including the informal power of integrity and organisational normative culture in general.

Providing Legitimacy through Aligning Formal Accountability with Informal Responsibility

In particular situations where unethical behaviour is overlooked when it is in the interest of the organisation or when it is in the interest of top management to remain ignorant, motivated ethical blindness may get engrained (Badaracco, 2003b; Bazerman & Tenbrunsel, 2011; Calhoun, 1995; McFall, 1987; Simons, Hannes & Nishi, 2022; Timmons, 1999; Waddock, 2009). Another potential barrier is the slippery slope or indirect blindness which allows unethical behaviour to be carried out when it develops gradually or when it is carried out through third parties respectively. And one of the most dangerous situations, according to Bazerman and Tenbrunsel (2011), is where unethical behaviour is accepted because the outcome is “good” and thus overvalued; in such a case it is recommendable that the firm rewards solid decision processes and not just good outcomes. A frequent quite subtle ethical fallacy is setting goals and incentives to promote a desired behaviour while in fact encouraging a negative one, as in ill-conceived goals (Paine, 1994, 2003). The pressure to maximise billable hours in accounting, consulting and law firms which focus on the financial short-term rewards instead of the long-term credibility of the firm is such an example of ill-conceived goals. The corporate governance mechanism of complying with codes of conduct have attempted to steer behaviour away from illegal or immoral behaviour. Studies indicate that mere codification of ethical behaviour can be quite counterproductive (Tenbrunsel, Smith-Crowe & Umphress, 2003). One cannot fully legalise or codify the notion of integrity. The best that can be hoped for is to align formal corporate governance with informal values, constituting an organisational culture of high integrity.

Defining ethics in terms of legal compliance only rather than in ethical aspirations, would imply a “code of moral mediocrity”. Non-executive directors at a board need to assist organisations to move beyond legality while embracing it all along instead of just moving away from it. By creating mindful awareness and interiorisation of values, ethics could “limit” certain behaviour and enable certain feelings of empathy to unfold and evolve. Especially when those values are engrained in the daily life of the organisation, tacit awareness will emerge. Ethical behaviour can strengthen the legal stance within the organisation. Ethics does not teach us to become a hero (Badaracco, 2013, 2016). On the contrary, a culture of integrity teaches us to stick to our principles while being pragmatic and trying to adapt with small trial-and-error

piecemeal engineering. Call it an internal ethical compass guided by integrity! And boards play a crucial role to set the tone on the top (George, 2004, 2009). Without being exemplary, employees won't practise or implement those ethical values. If pushed too hard to "achieve results at any cost", they may even resort to cutting corners, undermining any form of principled integrity.

An organisational culture that encourages ethical conduct and is committed to complying with rules and regulations is usually not emphasising the fear for punishment but rather a focus on fairness. Procedural fairness is more important than outcome fairness in promoting employee commitment and compliance (Fehr & Falk, 2002; Fehr & Gächter, 1998) which in combination with a high level of integrity among board members provides legitimacy to business. It is the commitment to values which is the key to explaining and influencing employee rule-orientated behaviour to motivate them to voluntarily adopt company values as their own. In organisations where ethical values are engrained and where procedures are perceived as fair, employees will almost automatically be motivated to comply with rules and regulations.

One needs to move beyond merely insisting upon rigid conformity and compliance to rules with little understanding because one knows this puts people at greater risk of not being able to figure out what to do when presented with complex problems or a new context where the rules are different. Understanding the answers to the most elusive and complex of ethical dilemmas that arise are dependent upon the moral fibre of the individual who has to make the decision, their wisdom and their understanding not only of the issue itself, but also of their responsibility, their role and what is at stake in the decision-making process. People with self-esteem on the job – and not just complying with the rules – are usually more productive and creative (Simons et al., 2015; Tracey et al., 1995; Tyler, 2001).

One should want the values of the organisation to enable the appropriate behaviours. Instead of people being too afraid to speak up even if they do see something illegal happening, one should want them to come forward because they value doing the right thing more than they fear retaliation. A culture of silence (Gentile, 2010a; Verhezen, 2010, 2013) is often at the roots of causes of document theft and conflict of interest scandals that can cost an organisation billions of dollars in fines and upheaval at the leadership level. Conceptually, people are morally mute or silent when they fail to voice moral concern in situations which normally can be expected to evoke moral sentiments of empathy and integrity (Verhezen, 2010). Strict and rigid compliance just builds in more fear. Organisational integrity only survives when people speak their conscience (Gentile, 2010b).

Ingraining ethical values is a never-ending process and one should never let up. The minimum one can expect from any responsible board member is that they do not harm, be fully accountable for their decisions and actions, and that they take their social and moral responsibility seriously toward relevant constituencies of the firm within the boundaries of reasonableness, with the ultimate objective to optimise sustainable organisational value.

An organisation can easily lose sight of its strategy and focus singlehandedly on one or two preferred metrics like a return on equity as the agency model does for instance, instead of understanding what the metrics really represent. There are many unfortunate cases – often the result of surrogating metrics for strategy and cutting corners to achieve those desired metric objectives or measurements. The Wells Fargo saga some years ago, or the more recent Theranos corporate debacle (Shell, 2021) are the antipode of virtuous integrity – despite their well-established codes and governance guidelines. Any company should guard against surrogation of strategy by financial short-term metrics (Harris & Taylor, 2019) – as advocated

by the prevailing agency theory. The danger of an investor surrogating a strategy by focusing on quarterly accounting results (i.e., net operating income) is real. Hence why I argued to align legal fiduciary duties to optimise financial performance with installing an organisational culture based on integrity of all members that provides a certain level of legitimacy to its business and its members steering the organisation.

FUTURE RESEARCH AND CONCLUSION

Despite the enormous efforts in the field of corporate governance, business ethics, and organisational studies and decision-making, I believe that several questions remain that need to be further analysed by more detailed academic research.

Although a lot of research on the practices of good corporate governance has been established, it is less clear whether these “universal governance principles” are showing a converging or diverging trend across the different national borders or legal clusters. Research has indicated how legal judicial ruling impacts the protection of legal shareholders’ rights; new research may assess how legitimacy and legality correlate in the valuation of firms. In addition, it could be useful to study the impact of the current geopolitical climate on those governance practices across borders, whether a diverging trend is emerging or not. Will the Anglo-Saxon Western governance standards as found in the prevailing agency theory be seen as rather hegemonic by emerging Asian – in particular Chinese – regulators and or politicians? How do Chinese and Southeast Asians look upon the assumptions of rational independent individuals in the agency theory that currently determines global corporate governance?

A second field of research to be further explored in international business ethics and organisational studies is a similar question around the diverging or converging trends around the notion of integrity across borders: to what extent is the Confucian notion of integrity similar to the Aristotelian virtue of integrity? To what extent will the cultural context impact the interpretation of integrity? This chapter took a phenomenological Aristotelian view on the virtue of individual and organisational integrity. Would other philosophical perspectives – e.g., Kantian, or a Utilitarian view, Buddhist or Confucian perspective – lead to distinctively different interpretations of integrity? And would such different ethical perspectives loosen the assumed link between institutional governance practices and the individual virtue of integrity? Moreover, how is the notion of integrity directly linked or related to the notion of consciousness and conscience? How is neuroscience affecting business ethics and the notion of integrity? And should the philosophy of mind and ethics around the notion of responsibility and integrity be de-constructed in a complete different way as result of new neuroscientific findings?

Finally, a third area of possible further research in the field of organisational and leadership studies concerns the emergence of a different kind of leadership. One could question whether the constraints of traditional leadership within the prevailing agency model would equip them in ambiguous situations or in ethical dilemmas. Future research should assess a potential direct causal link between the mainstream good governance practices (an institutional framework) on the one hand and an authentic self as expressed in the notion of integrity (an individual ethical feature) on the other hand that positively affect these leadership requirements. How does power at boards affect behaviour and is there a negative correlation between formal corporate power and informal integrity? In other words, some more research is needed to assess

a potential causal link between an evolving notion of leadership and the effect of integrity and governance – without falling in the trap of wishful idealistic thinking.

This chapter has argued that only when corporate governance processes and practices are implemented by executives with a reputation of high integrity, organisations will thrive. The opposite is also true: organisations without an individual moral compass or without proper institutional governance structures and processes will fail one way or another. Integrity at boards is a necessity, not a luxury. To paraphrase and condone the 18th-century philosopher Immanuel Kant in his seminal essay on Enlightenment: *Sapere Aude* (dare to think clearly and to know rationally), *cum integritatis* (but underpinned by integrity). Dare to make smart decisions but with a scent of wisdom in them. Those board members with a high level of integrity aligned with proper good governance practices will reduce reputational and ethical risks and continue to make smart decisions that optimise a risk-adjusted return. Both institutional corporate governance practices energised by the beacon of virtuous integrity of these board members and top executives can steer an organisation toward a meaningful and prosperous future, a more futureproof organisation.

Boards have learned to live with ambiguities, paradoxes and complexities that often require a level of smart pragmatism but also managerial wisdom in executing certain ideals and objectives. Governance without integrity remains purposeless or soulless, but it is also true that such attempts to align informal organisational integrity with more formal corporate governance practices remains a work-in-progress.

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