

Integrity can influence corporate performance

The corporate world is going through a crisis of confidence. Investors, employees and customers have lost trust because of the corporate scandals created by concealed malpractice, compulsory greed and compelling distrust. The challenge is for executives and boards to regain the trust of their stakeholders through integrity.

When corporate executives are paid to optimise shareholder value, the justification of their high remuneration packages is in question as their companies are shedding staff and trying to survive. Boards are still approving the audacious requests by senior executives' to be paid handsomely, despite of being bailed out by tax payer money. Executives are not taking their fiduciary duty seriously, claiming that the fall in corporate performance is due to the global financial crisis and is therefore not under their immediate control; cause and consequence seems to be deliberately reversed.

We know that the extrinsic motivation of high executive salaries as a reward to create more shareholder value, known as the agency model, is not necessarily leading to the expected results. Michael Jensen, one of the most staunch promoters of this model in corporate governance, admits that share option compensation has proven to be 'managerial heroin', encouraging a focus on short term highs with destructive long term consequences. The current corporate and financial crisis that almost brought the global financial system to a standstill last year was likely caused by credit-giving malpractices, greed initiated by sophisticated financial instruments and a lack of sensible risk management. We also know that remuneration policies that focus on short-term profitability, without adequate regard to risk, does not optimise shareholder value but seems to motivate excessive selfish risk-taking by top executives.

Executive remuneration as the main motivator for improved performance has been the topic of an ongoing debate for good corporate governance. It's time we turned to the intrinsic motivation of integrity as an influencer of corporate performance.

Boards and senior executives need to re-emphasise the importance of 'corporate virtue of integrity' and more fair remuneration packages in their organisations. Focusing on intrinsic motivations of management and employees and tempering extrinsic motivations may be a more effective way to resolve corporate inefficiencies and externalities.

Despite the overt and justifiable pressures for economic performance, ethical and ecological sensitivity can contribute to sustainable organisational value. Intrinsically motivated honesty and trustworthiness is often undermined by the presumption that managers act solely in the interests of the shareholders as long as they are paid enough. Moreover, employees' honesty is in jeopardy if they see that their superiors 'feather their own nests' at the expense of the firm and its employees. The agency model has overlooked the fact that conditioning on pecuniary compensation only reduces the voluntary commitment to the firm and its shareholders.

In management and economic literature this 'crowding-out effect' implies that tangible and monetary rewards often undermine intrinsic motivations, reducing the overall performance of important stakeholders.

Managers with a reputation of strong integrity have a clear sense of purpose, grounded in consciously selected ethical priorities that allow them to face new challenges with creativity and initiative. However, managers do not need ethics preached to them. Integrity is not just a self-contained trait of virtuous character, but rather an interactive attitude in relationship with others that increases self-understanding and awareness of one's ideals and objectives as well as the threats to those. 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. 'Having integrity' is quite misleading as if integrity were a mere possession. Integrity is not so much a character trait as it is a sophisticated reflective constant state of awareness that results in an attitude that encompasses moral creativity and ecological awareness.

Emphasising the intrinsic value of integrity allows organisations to develop a genuine 'interest' that cares for its customers, employees, suppliers and the broader environment in which it operates. It might be more effective to grant 'fair' fixed salaries with long term arrangements for limited share options which explicitly relates it to the sustainability (i.e.

at least measurement periods beyond the usual quarterly or even yearly periods) of the presumed financial corporate performances.

Ultimately, a fiduciary care based on intrinsic motivations will serve the corporate leadership's fiduciary duty to create and enhance shareholder value. Trustworthy and truthful Chief Executive Officers, who can also be considered 'Chief Ethics Officers', will responsibly lead their organisations in a more appropriate and sustainable way, while enhancing total shareholder value; this includes consciously deliberating, pursuing and balancing economic goals with ethical and ecological principles to restore confidence and trust in their organisations.

Organisations and corporate governance mechanisms should embed moral and environmental values into commercial value, encouraging a crowding-in effect of integrity rather than emphasising the crowding-out effect of pecuniary rewards. Values really matter to achieve commercial value.

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