Return on Integrity (ROI):
How Acting with Integrity Improves Business Results

About the Author:

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Introduction

The lack of integrity is behind almost every corporate scandal. There are, unfortunately, far too many examples to make that case. Earlier this year, Toshiba Corporation made headlines when it admitted to accounting errors dating as far back as 2010 that caused the company to overstate financial results by approximately $1.2 million dollars. The scandal resulted in the ousting of Toshiba’s then CEO and several other corporate leaders. In February, Brazilian oil giant, Petrobras announced the resignation of its CEO and five other executives after the arrest of more than 80 executives and managers on charges of bribery and money laundering. Federal prosecutors say that billions of dollars were diverted from Petrobras’ accounts. The University of North Carolina is working through the far-reaching effects of an historic academic and athletic cheating scandal.

And then there is Volkswagen’s recent emissions scandal which now has its own twitter hashtag, #volkswagengate. Time will tell whether Volkswagen can survive the financial and customer losses it faces as a result of installing software that make diesel VW cars appear to be “cleaner” than they actually are. A week after Volkswagen admitted to installing the software on its diesel cars from 2009 through 2015, its CEO, Martin Winterkorn resigned. He is now under investigation for fraud by German prosecutors. The company faces heavy fines, has recalled 500,000 cars and stopped sales of new and used cars in the United States, and now is trying to figure out how to repair an estimated 11 million affected cars.

This white paper:

- Discusses what integrity means;
- Examines some causes of ethical breakdowns in an organization;
- Examines why organizations with high levels of integrity outperform their peers with lower levels of integrity, and;
- Offers suggestions about how HR and talent management professionals can reinforce their organization’s integrity levels.

What is integrity?

In simple terms, integrity is doing the right thing. It is the act of being honest and morally upright (Zwilling, 2015). Integrity in a business setting pertains to how ethically one behaves toward co-workers, shareholders, stakeholders, and the environment (Schoeman, 2012).

On the surface, acting with integrity would seem relatively easy—stick to one’s values, be honest, and sleep well at night. In reality, though, acting with integrity is difficult, especially in organizations where leaders put profit above integrity by cutting little corners here and there. The employer, for example, who unwittingly designs a sales incentive program that
encourages unethical behavior. The accountant who cooks the books to inflate profits. The employee who doctors his expense report. The supervisor who lies to her employees or takes credit for their ideas. These lapses of integrity may start out small, but tend to grow over time—because once started, people tend to continue to behave unethically to cover previous lapses.

How Unethical Behavior in the Workplace Occurs

Few people wake up one morning and decide to go against every value they were taught. The few who do are called psychopaths. Yet ethical lapses big and small regularly occur in the workplace. A 2014 report released by the Ethics Resource Center found that 41 percent of the 6,400 employees surveyed said they had observed misconduct on the job. The survey also found that much of the misconduct observed by employees involves

World’s Most Ethical Companies

The Ethisphere Institute, an organization dedicated to promoting ethical business practices, compiles an annual list of the world’s most ethical companies. Organizations that make the list have documented transparency, integrity, ethics, and compliance.

“Companies today are challenged by a complex and often conflicting set of laws and regulations around the world, yet despite the lack of a global rule of law there’s a growing commonality about how to do business the right way,” explained Ethisphere’s Chief Executive Officer, Timothy Erblich in a press release posted on the Institute’s website. “More and more, we’re finding that stakeholders from employees and customers to executives and investors understand that ethical leadership drives outcomes ranging from operational performance to corporate integrity, transparency, and workforce behavior. We’re delighted to honor these companies who not only understand the various components of what makes a company ethical but are dedicated to building an environment that makes it so.”

The Institute does not rank the organizations that make the list, but those that were named to 2015’s list include Accenture, GE, Empresa de Desarrollo Urbano, Google Inc., Hennes & Mauritz (H&M), The Hershey Company, illycaffè spa, Kao Corporation, Marks and Spencer, Milliken & Company, National Australia Bank, Natura Cosméticos, PepsiCo, SingTel, The Rezidor Hotel Group, Voya Financial and Wipro Limited.

The World’s Most Ethical Company assessment is based on the Ethisphere Institute’s Ethics Quotient (EQ) framework. The framework provides a way to assess an organization’s performance in an objective, consistent, and standardized way. Scores are generated in five key categories: ethics and compliance program (35%), corporate citizenship and responsibility (20%), culture of ethics (20%), governance (15%), and leadership, innovation and reputation (10%).

The full list of the 2015 World’s Most Ethical Companies can be found at http://ethisphere.com/worlds-most-ethical/wme-honorees/.
continuous, ongoing behavior, not one-time occurrences.

People read about unethical behavior and inaccurately assume that unethical acts are committed by unethical people—those with flawed moral character. This is not necessarily true according to Dr. Alison Fragale, the Mary Farley Ames Lee Distinguished Scholar and an associate professor of organizational behavior at UNC Kenan-Flagler Business School. Fragale notes that all organizations have hierarchies, and this is usually good. Hierarchical relationships make employees more comfortable in their interpersonal interactions, and hierarchies enable groups to accomplish tasks more efficiently. At the same time, hierarchies—which are simply unequal distributions of power across individuals in a group—actually can promote unethical and undesirable behavior. This occurs because possessing power—being in control of resources and being free from the control of others—can change how individuals think, feel, and act, and often for the worse. This makes it difficult, if not impossible, for employers to “select out” undesirable behavior simply by hiring the “right people.” Each organization, organizational unit, and individual must create the right environment to minimize the undesirable consequences of possessing power.

A recent study found that small ethical lapses lead to bigger ones, and this may explain why misconduct is usually repeated. In their study, researchers Francesca Gino, Lisa Ordonez, and David Welsh (2014) found that people who were given the chance to cheat gradually were willing to cheat more during a second round of a test and to cheat even more on a third round of a test. The study gave test subjects a series of problem-solving tasks. Some of the test subjects were allowed to cheat during the first and second rounds and others (known as the abrupt change group) were not. The researchers found that half of the subjects allowed to cheat did so to earn $.25 per problem during the first round. By the third round, 60 percent of this group cheated to earn $2.50 per problem. The people in the abrupt change group, however, were much less willing to cheat during the third round—only about 30 percent did.

The researchers concluded that behaving unethically tends to have a snowball effect. It might start as a simple “rounding up” of mileage statements with a rationalization that “everyone does it,” but over time, the rationalizing of minor indiscretions influences how people view progressively worse behaviors and may lead to bigger offenses.

Jessica Kennedy, an assistant professor at Vanderbilt University, has found in her studies on ethical behavior that power may cause business leaders to identify so strongly with their

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**How Leaders Show Integrity**

1. They support the team, even under pressure. They set aside selfish impulses.
2. They take responsibility for their problems.
3. They help others without expecting something in return.
4. They still live by their principles when given power.
5. They treat all employees with respect.
6. They don’t waste their free time.
7. They surround themselves with peers who push them to be better.
8. They don’t pretend to know everything.
9. They welcome valid criticism.

Source: Feloni, 2014
group that they lose sight of whether group members’ behavior has crossed ethical lines. She surmises that the leader’s strong identification with that group causes them to support unethical behavior rather than stopping it. Other studies have also found that people making decisions in groups are more likely to lie than when making a decision individually (Geller, 2015).

Unethical behavior in the workplace is sometimes the result of ill-conceived goals (Bazerman and Tenbrunsel, 2011). For example, back in the 1990s, Sears, in an attempt to speed up repair time, gave their mechanics a sales goal of $147 an hour. To reach that goal, their mechanics didn’t work faster—they overcharged customers for their services and made unnecessary repairs on things that weren’t broken (Bazerman and Tenbrunsel, 2011).

Bazerman and Tensbrunsel also note that ethical breakdowns occur because of motivated blindness, that people see only what they want to see, a bias that Kennedy observed in studies on groups. This may be what happened in Volkswagen’s case. In an effort to boost sales of its diesel cars, leaders and rank-and-file employees failed to recognize their own unethical behaviors.

Regardless of its cause, unethical behavior is usually rooted in a win-at-all-costs mentality—an employer’s push to increase sales, for example, or an employee’s need to pad his pockets. Yet study after study has shown that organizations with high levels of integrity actually perform better than organizations with low levels of integrity.

Why Integrity Pays Off

There are definite costs to organizations found to lack integrity; costs, no doubt, Volkswagen is currently experiencing. The lack of integrity:

- Erodes shareholder confidence;
- Damages the organization’s reputation in the marketplace;
- Lowers brand equity;
- Decreases consumer support, and;
- Often results in costly attorney’s fees and government fines (Schoeman, 2012).

All of these factors can place an organization’s future at risk—the scandal at Enron led to its eventual downfall. These costs, however, occur after the lack of integrity has gone public. Other studies involving organizations that operate with high levels of integrity show that there is a considerable bottom-line return to acting ethically.

- A 2000 study by Tony Simons, an associate professor at Cornell University’s School of Hotel Administration, found that hotel employees who believed their managers could be counted on to keep their word were more loyal to
the hotel. This belief led to lower employee turnover and better customer service which in turn led to a $250,000 profit increase per hotel per year (Simons, 2008).

- In a study titled “Determinants of the Stock Price Reaction to Allegations of Corporate Misconduct,” authors Murphy, Shrieves, and Tibbs found that allegations of misconduct led to statistically significant declines in reported earnings and more stock price volatility (Kimmel, 2015).

Other studies have found that organizations with high trust levels are 2.5 times more likely than those with low trust levels to have superior revenue growth. Overall, high trust organizations outperform other organizations in achieving business goals, offering excellent customer service, and retaining employees. They also have improved competitive market positions (Kimmel, 2015).

Fred Kiel, co-founder of KRW International and author of Return on Character (Harvard Business Press, 2015), studied 84 CEOs over seven years and collected data on employee ratings of their behavior and company performance. He found that CEOs regarded as having high integrity realized a multi-year return of 9.4 percent. CEOs regarded as having low integrity had yields of 1.9 percent. In addition, employee engagement was 26 percent higher in organizations with high-integrity CEOs (Bradberry, 2015).

Another study also found that an organization’s proclaimed values were irrelevant; it was the employee’s perceptions of the CEO and senior leaders as trustworthy and ethical that mattered more. In fact, some proclaimed values like those found in mission statements and other organizational communications may actually impede integrity, particularly if they are at odds with a CEOs and senior leaders’ perceived trustworthiness (Simons, 2008).

Given these studies that document the ROI of integrity and the negative effects the lack of integrity has on organizations, it simply makes sense that HR and talent management professionals make ethical behavior and integrity a priority in their organizations.

**Integrity at Eastman Chemical**

Kingsport, Tennessee-based Eastman Chemical was one of the companies named to Ethisphere Institute’s 2015 Most Ethical Company list. To encourage ethical behavior among its employees, the company created the Office of Business Conduct. The office created a Code of Global Business Conduct that outlines laws, principles, and guidelines that Eastman Chemical employees should follow regarding integrity, honesty, and responsible corporate behavior. In addition, all employees are required to participate in annual training on the code, and a confidential 24-hour business conduct helpline is available for employees to report suspected unethical activities. The hotline is staffed by third-party specialists.

Source: Eastman staff, 2015.
How to Reinforce Integrity in an Organization

It is next to impossible to inoculate people to act with integrity. By the time they enter the workplace, those values have been ingrained in their being. Employers can reinforce the tenets of integrity, however, just like they focus on other tenets of their organizational values, such as safety. Many organizations have a safety-first culture and have a “safety minute” during each meeting to reinforce the value of safety. The same framework can be used with integrity.

General (Ret.) H. Hugh Shelton, the 14th Chairman of the Joint Chiefs of Staffs from 1997 to 2001, believes that everybody is a leader no matter their organizational role. He also believes that the values of honesty, integrity, diversity, compassion, and selfless service apply no matter one’s age or whether one is an aspiring, emerging, tactical, or strategic leader. (Full disclosure: I worked for GEN Shelton as the Director of NC State’s Shelton Leadership Center.)

Fragale and her colleagues (Mike Christian, Sredhari Desai, Dave Hofmann, Mabel Miguel, Shimul Melwani, and Matt Pearsall) at the Kenan-Flagler Business School note that there are tools, frameworks, and cultural norms that can increase individual and corporate accountability and reinforce and increase the probability of consistently behaving in an ethical manner. Fragale et al also recommend that employees who are higher up in the organizational hierarchy should be aware of the psychology of decision making and biases.

To improve integrity at their organizations, HR professionals should consider the following recommendations.

1. As Kennedy observes, unethical conduct tends to occur when groups make decisions together. To avoid this tendency, HR and talent management professionals should assign lower-ranking employees (devil’s advocates, so to speak) who are not part of the group or who do not identify strongly with that group to review the groups’

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**Integrity at TIAA-CREF**

Financial services provider TIAA-CREF was also named to Ethisphere Institute’s 2015 World’s Most Ethical Company list. In a press release announcing the news, TIAA-CREF’s Chief Ethics Office Janice Innis-Thomas said that “TIAA-CREF’s commitment to high ethical standards goes beyond mere words and is embodied by our employee population. Our Code of Business Conduct and the shared values that guide our employees allow for personal ownership and accountability to these standards. This code is not a series of policy prescriptions but instead embraces the basic principle of ‘doing the right thing.’”

Source: TIAA-CREF staff, 2015.

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Source: TIAA-CREF staff, 2015.
decisions. UNC professors emphasize, however, that these advocates should be rotated among the group.

HR and talent management professionals should help clients focus on another way to avoid unethical conduct in groups—employing an inquiry-based approach to decision making. This encourages all employees to offer different points of view and it avoids falling into a “group think” mode of decision making. It is critical to get different points of view to ensure that all possible options are on the table. It also allows for the group to analyze the advantages and disadvantages of each option and to assess the short- and long-term effects decisions will have on key stakeholders.

2. HR and talent management professionals should strive to create an organizational culture that encourages lower-ranking employees to speak up. Such a culture includes promoting some key elements of integrity. These include:

- **Be honest.** Honesty at all organizational levels is crucial to creating a culture of integrity. Honesty does not include omissions—it means telling the whole truth, even when it is uncomfortable. This is increasingly important when encouraging people to have the moral courage to speak “truth to power.” C.S. Lewis said that “the safest road to hell is the gradual one—the gentle slope, soft underfoot, without sudden turnings, without milestones, without signposts.” Moral courage helps avoid that slippery slope. Moral courage means allowing others to speak the truth and doing the right thing.

- **Be consistent in words, actions, and values.** Integrity is that particular quality of character that occurs when a person stays true to his or her commitments. The word “integrity” comes from the Latin word, integer, which means whole or complete. A person acts with integrity when his or her beliefs, words, and actions are consistently aligned. For organizations, this means that everyone has the same point of view about what matters. Good leaders follow through on their promises, and this raises integrity in an organization.

- **Show respect to everyone.** Good leaders are courteous and respectful of others, from food service attendants to senior leaders. This, in turn, engenders others to be respectful. One of the most telling indicators of this is the extent to which one speaks and listens to the people lower in the organizational hierarchy. Another telling indicator is the extent to which leaders use “we” versus “I” when highlighting successes. Great leaders emphasize “we” with organizational successes while using “I” with issues and problems.

- **Be selfless.** This is a particularly important character trait in leaders. Good leaders show compassion for others and are selfless with their time.
3. HR and talent management professionals should develop processes that ensure senior leaders are held accountable for ethical standards. This links back to Dr. Fragale’s studies on the psychology of power in organizational hierarchies. This may include ethics training.

Finally, HR and talent management professionals can provide “nudges” to help employees avoid indiscretions from the start. At International Paper, for example, all employees are issued a wallet card with ethics-related questions to consider when making business decisions (Gino, Ordonez and Welsh, 2014). These nudges can also help keep senior leaders more accountable.

Conclusion

Organizations that invest in fostering ethical conduct and integrity reap the financial and nonfinancial rewards, including improved employee loyalty and retention and more satisfied customers and stakeholders. They can also avoid the negative outcomes that occur when there is a lack of integrity, including financial losses, fines, decreased customer and employee support, and a damaged reputation.
About UNC Executive Development

Our approach to program design and delivery draws upon the power of real-world, applicable experiences from our faculty and staff, integrated with the knowledge our client partners share about the challenges they face.

We combine traditional with experiential and unique learning to ensure that all individuals gain relevant new skills that they can easily implement within their own organizations. Through action learning and business simulation activities, we challenge participants to think, reflect and make decisions differently.

Our Approach: The Partnership

Our team customizes each leadership program through a highly collaborative process that involves our clients, program directors, faculty and program managers. We are dedicated to following-up with our clients and individual participants to ensure that their learning experiences have been meaningful and impactful. This integrated approach consistently drives strong outcomes.

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Our executive education programs are designed with results in mind, and we are focused on successfully meeting our clients' business and academic expectations. Below are a few examples of the results our client partners have achieved:

- Leadership refocused with new strategy and cohesive vision
- Strategic plans created for the global marketplace
- Supply chains streamlined
- Products redefined
- New markets targeted
- Cost-saving measures developed
- Silos leveled
- Teams aligned

Participants leave empowered to bring in new ideas, present different ways to grow business and tackle challenges. The result is stronger individuals leading stronger teams and organizations.

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Sources


