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INTEGRITY IN BUSINESS

The Hunt-Vitrell (1993) model of business ethics suggests a diversity of influencers on a person's ability to perceive ethical issues, including: culture, professional environment, industry environment, organizational environment, and personal characteristics. This model assumes that people make ethical decisions based on deontological or teleological values.

There are a variety of influencers on a person's ability to perceive ethical issues.

Deontological comes from the ancient Greek word deon, which means "duty." Many ethicists call this type of ethical approach "duty-based," because people who practice this type of ethics approach often feel they have a moral obligation or commitment to act in a certain manner. Teleological also comes from ancient Greek, this time meaning "end" or "purpose." Many ethicists call this type of ethical approach "goal-based" because the people who practice this type of ethics approach believe there is an intricate design to the universe and their goal is to achieve the most perfect society possible. While the average person may not base his or her decisions on either of these philosophical perspectives, most scholars agree that "ethical sensitivity", also a Hunt-Vitrell construct, is the perception that a situation has ethical components (Swenson-Lepper, 2005).

Corporate Social Responsibility (CSR) has its underpinnings in this same construct – i.e. ethical sensitivity. Carroll & Buchholtz (2003) define CSR within the framework of corporate

citizenship. Corporate social responsibility emphasizes obligation and accountability. Corporate social responsiveness emphasizes action and activity. Corporate social performance emphasizes outcomes and results. They refer to an integrity strategy, which is characterized by a conception of ethics as the driving force of an organization. Hence, integrity and business ethics are closely intertwined.

Some well-known scholars would dispute this concept of social responsibility. Nobel Laureate Milton Friedman (1970) wrote that the social responsibility of business is to increase its profits. He asserts that businesses that promote “desirable social ends” are preaching pure and unadulterated socialism. However, many CEO’s disagree with Friedman. Whole Foods’ John Mackey (“Rethinking the social responsibility of business”, 2005) stresses that he and Friedman think about business in “entirely different ways. Mackey does not believe that maximizing profits for investors is the only acceptable justification for all corporate actions. Investors are not the only people that matter. Whole Foods Market was created to create value for all of its stakeholders - not just its investors. These stakeholders include customers, employees and the public at large. According to Mackey, making high profits is the means to the end of fulfilling Whole Foods’ core business mission. Their real goal is to improve the health and well-

being of everyone on the planet through higher-quality foods and better nutrition.

The debate over the true meaning of business ethics is on-going, but most businesses will agree that there must be some level of integrity when dealing with various stakeholder groups.

THE CLARITY AND PRECISION VS. FLEXIBILITY DILEMMA

Harris (2004) discusses fact-based vs. intuition-based leadership models in his article about American politics. He discusses a common political science theory that asserts that leaders can be categorized into those driven by ideology, who value clarity above all, and those who lead by analysis and improvisation, who value flexibility in the face of changing facts and circumstances.

Business leaders share this clarity vs. flexibility dichotomy with political leaders, although this is driven less by ideology than a desire for control. This dilemma is evidenced in the organizational design of their companies.

Many firms grapple with architecting an effective organizational design – particularly their vertical design. Hellriegel, Jackson & Slocum (2005) define the five aspects of vertical design as: 1) hierarchy, 2) span of control, 3) authority, responsibility, and accountability, 4) delegation; and 5) centralization and decentralization.

The choice the organization makes has an impact on the latitude an employee is given when performing his or her job. For

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example, in an organizational design where a great deal of authority, responsibility and accountability is delegated to employees one can say that there is a great deal of flexibility in the way the employee may perform his or her job. In an organizational design where little authority is delegated to employees, control is usually centralized with most decision-making authority concentrated in the top rungs of the organization. This sort of organizational design promotes clarity and precision in the decision-making process as well as in the execution of tasks, at the expense of flexibility in reacting to changing market conditions as well as a pronounced negative effect on innovation. Most firms, therefore, opt for flexibility. However, this flexibility comes with a price. Giving an employee complete freedom to innovate as the need arises, is to invite problems such as the one experienced by Merrill Lynch.

Henry Blodget was a senior Internet analyst for Merrill Lynch in the late 1990s and early 2000s. By 2002 New York DA Eliot Spitzer had published Merrill Lynch e-mails that provided graphic examples of the fraud behind Blodget's published stock recommendations. Blodget was publicly bullish on stocks that he dismissed as garbage privately. Most of the companies were giving Merrill investment banking business. For instance, Blodget kept Internet search company InfoSpace on Merrill's "Favored 15" list from at least August 2000 until Dec. 5, 2000, although Blodget

acknowledged as early as July that the stock was a "powder keg." In October 2000, he referred to it as a "piece of junk" (Valdmanis, 2002).

Blodget was a minor league player compared to the infamous Frank Quattrone, however. Quattrone was head of Credit Suisse First Boston's technology investment banking business and was a "chief architect" of the dot-com, high-tech economy (Himmelstein, Hamm & Burrows, 2003). He was both a power-broker and a rainmaker, leading 138 high-tech IPO's during this tenure. By 2003, Quattrone was in court on charges of obstruction for interfering with an investigation into improper allocation of IPO shares by sending an email to employees urging them to delete documents. He was also being investigated by the NASD for a plethora of rules violations, including offering potential clients favorable analyst coverage. In 2004, Quattrone was found guilty of all counts. By then, Credit Suisse had already agreed to pay \$100 million to settle allegations of abuses in how it allocated shares of hot IPOs in 2001 ("Frank Quattrone Guilty on all Counts", 2004).

Both Merrill and Credit Suisse were victims of their own flexibility due to the lack of integrity of an employee.

A CEO leads by example.

THE DILEMMA OF TOP-DOWN VS. BOTTOM-UP INFLUENCE

A CEO leads by example. If he or she is dishonest or lacks integrity, this culture of dishonesty will permeate the entire organization - i.e. top-down influence. A good example of this is Enron. Lay and Skilling's bad

corporate behavior seems to have permeated the entire corporation. According to CBS Evening News ("Enron Traders", 2004) when a fire shut down a transmission line in California, cutting power supplies and raising prices, Enron energy traders celebrated by saying, "Burn, baby, burn. That's a beautiful thing/".

Alternatively, a lack of integrity from the bottom-up may also harm the organization. In the last section, we discussed the case of Henry Blodget and how his modus operandi harmed Merrill Lynch. Landon (2005) tells the story of two investment bankers who were summarily fired from Bank of America for acting on an (insider) tip from a rival banker. Landon also describes the case of Citigroup, which closed its private bank in Japan because of a lack of internal controls and money laundering.

THE SUBSTANCE VS. PROCESS DILEMMA

Miller (2006) describes values-based leadership as an important approach to leadership. However, it requires constant attention to every situation on a daily basis. Miller asserts that one of the strongest values a leader can embrace is integrity, which is the foundation upon which the leader – and his or her firm – builds influence and success.

Insisting on high levels of integrity can guide the organization to higher levels of process performance because trust is established amongst peers, customers and partners. Most values-based leaders articulate a very clear code of ethics within

their organizations. However, Grace & Hauptert (2006) suggest that while the ethics program framework provides the substance, what is also needed is a governance process that not only encourages but also supports and deters. They assert that proper checks and balances, starting at the Board level, help ensure a transparent working environment and keep ethical employees from being manipulated and intimidated by others. Citibank, Merrill Lynch and the rest of the companies mentioned in this paper surely had an ethics policy – i.e. the substance. However, it is obvious that none of these programs provided the checks and balances – the process – that would have kept them out of trouble.

THE CONFRONTATION VS. COMPROMISE DILEMMA

Moberg (2001) presents a study that provides a theoretical and rational basis for linking personality dimensions to conflict strategy. Five hypotheses are proposed: 1) Nonconfrontation: Preference for handling conflict indirectly by minimizing differences, avoiding, or withdrawing will relate to Neuroticism (positively), Extraversion (negatively), and Conscientiousness (negatively); 2) Confrontation: Preference for handling conflict directly by facing or discussing issues straightforwardly will relate to Neuroticism (negatively), Extraversion (positively), Openness (positively), and Conscientiousness (positively); 3) Compromise: Preference for handling conflict by conceding and problem solving will relate to Extraversion, Openness, Agreeableness, and Conscientiousness

(all positively); 4) Control: Preference for handling conflict directly by competing, contending, or dominating will relate to Neuroticism (positively), Extraversion (positively), Openness (negatively), and Agreeableness (negatively). Confrontation in this context is not necessarily negative, instead promoting openness and conscientiousness. Compromise, on the other hand, is consistently positive in its attributes. It seems reasonable to assume, then, that when dealing with business issues that have impact on a company's integrity both compromise and "positive" confrontation may be useful.

Both confrontation and compromise are promoted through open communications within the company.

Both confrontation and compromise are promoted through open communications within the company. When this is lacking, integrity problems will go unreported and can escalate. This is exactly what happened at WorldCom. Betty Vinson was a senior manager in the accounting department. Convicted of booking billions of dollars in false expenses, she was sentenced to time in jail along with more notables such as Bernie Ebbers (Gebler, 2006). Vinson was one of the lowest-ranking members of the conspiracy that led to the \$11 billion dollar fraud that ultimately shuttered WorldCom's doors in 2002. According to Gebler, had the WorldCom culture encouraged open communication, people like Betty Vinson would have been more willing to confront orders that they knew were wrong.

THE TANGIBLE VS. INTANGIBLE DILEMMA

Business managers prefer to deal with concrete issues – i.e. tangible dilemmas such as “how to deal with increasing market share in Tokyo”. Jacobs (2004), in his review of approaches to integrity in business ethics, discusses the pragmatist philosophy of business ethics. Pragmatist ethics require that individuals understand the objective social consequences of their actions. Pragmatist integrity allows a manager to “be in the business world but not of it”.

What this means is that the business manager who adheres to this brand of integrity would consider both the tangible as well as intangible aspects of his or her decisions. In other words, the manager would be less myopic about the consequences of his or her decisions. Jacobs (2004) provides an example of this in action. A manager only dealing in tangibles would assert that downsizing satisfies the rigors of the marketplace. A manager that deals in intangibles, and wishes to balance integrity against the rigors of the marketplace, would exercise restraint by consulting with employees and consider possible alternatives. A pragmatic ethicist regards an organization as a means to human ends, not as a possession to be defended, according to Jacobs. Pragmatist integrity would also alter management responses to union organizing. Jacobs (2004) suggests that if employees were to

provide authoritative evidence of their support for unionization, managers should be willing to recognize the relevant unions.

CONCLUSION

Moral management requires the business to understand the various dilemmas of perspective when dealing with its various stakeholder groups and then go beyond what they can readily see to also focus on what they can feel. Merck & Co. did just this when they invested millions of dollars in developing a drug that treated river blindness, a scourge of the Third World (Carroll & Buchholtz, 2003). Merck developed the drug knowing that no government would be able to buy the drug. They also pledged to supply the drug for free in perpetuity and to also arrange for its distribution.

About Jessica Keyes

Jessica Keyes is president of New Art Technologies, Inc., a high-technology and management consultancy and development firm started in New York in 1989. She is also the founder of New Art Press, a publisher of technology and business books.

Keyes is a frequent keynote speaker on the topics of competitive strategy and productivity and quality. She is former advisor for DataPro, McGraw-Hill's computer research arm, as well as a member of the Sprint Business Council. Keyes is also a founding Board of Director member of the New York Software Industry Association. She has recently completed a two-year term on the

Mayor of New York City's Small Business Advisory Council. She is currently a professor of computer science. She is the former editor-in-chief of CRC Press' *Information Management and Systems Development Management*.

Prior to founding New Art, Keyes was Managing Director of R&D for the New York Stock Exchange and has been an officer with Swiss Bank Co. and Banker's Trust, both in New York City. She holds a Masters of Business Administration from New York University where she did her research in the area of artificial intelligence. She is currently pursuing her doctorate.

A noted columnist and correspondent with over 200 articles published, Keyes is the author of 20 books on wide-ranging topics from competitive use of information technology to balanced scorecard.

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