Aligning Corporate Governance with Organizational Integrity

Peter Verhezen

Abstract

Formal institutional structures of best corporate governance practices need to be infused with the vital energy of integrity to guide ethical behaviour of board members. Research has made some good strides in explaining the correlations between different governance variables and financial performance. But the correlation between integrity and governance is less conclusive or much less understood. Being commercially and efficient savvy while complying to the prevailing corporate governance practices is a necessary but not sufficient condition to steer towards futureproof organizations. By aligning individual integrity with the mainstream agency theory within corporate governance, a board will become more conscious about the socio-ethical or ecological consequences of its decisions. The shareholders do account board members for their decisions, but involved committed stakeholders are increasingly scrutinizing the shareholders' primacy theory and put pressure on the board to also make responsible decisions. Future research may consider to provide a more integrated legal and legitimate governance framework making it easier to align leadership and governance models with the normative notion of integrity, which in itself may need to be explored from different philosophical angles.

Key words: boards, individual integrity, institutional corporate governance, legal fiduciary accountability, legitimacy of responsible behaviour

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 organizations, an organization 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 is origin in the feeling of empathy for the other. That feeling of compassionate empathy initiates a conscience which distinguishes good 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). In order 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.

The first section of this chapter assesses the strengths and weaknesses of the prevailing agency theory withing corporate governance as applied in most listed but also non-listed organizations. 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 organizational integrity could mean for the organization. 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 organizations. The required organizational 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 organizations more than money-making machines, but places to thrive (Kennedy-Glans & Schulz, 2005). Organizations may then fulfil that promise of creating value while also providing meaningful purpose and sense to all those involved in the organization. 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 decision or leadership research (Clarke, 2004; Macey, 2013; Schanzenbach & Sitkoff, 2020; Verhezen, 2023).

<a> Complying to institutional corporate governance enhances smart decision-making

The main function of an effective board is to safeguard the organization from negative threatening risks and to provide the resources to exploit current assets to its fullest potential while exploring and therefore investing in new ventures or business opportunities. Corporate governance establishes the identity of the legal power within the organization and how it can be used to direct and control. Currently, the debate is raging whether organizational value refers to optimizing a risk-adjusted return only, or whether other non-financial objectives should become a mandatory board duty as well (Rose, 2007; Freeman, 2010; 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 optimize 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 into a practical win-win situation. But to succeed, more research will need to be undertaken to see the benefits of such more 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 organizational objectives.

<b> *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 optimizing their own interests (Fama & Jensen, 1983; Friedman, 1970; Jensen & Meckling, 1976; Jensen, 1986; Lorsch & Clark, 2004). Corporate governance is about how a set of promises to investors, workers, suppliers, customers, local communities can be institutionalized, 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 organization 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; Clarke, 2007; Charan, 2005; 2009; Chew & Gillan, 2009; Monks & Minow, 2004, Rezaee, 2007).

From an agency theoretical perspective (Bebchuk, Cohen & Farrell, 2004; Beiner, Drobetz, Schmid & Zimmerman, 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 emphasize to have empathy for those who have a stake in the organization 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, Canella & Paetzold, 2000; Hillman & Dalziel, 2003; Pfeffer, 1972; Pfeffer & Salancik, 1978) or network perspective (Peng, 20023; Peng & Zhou, 2005), effective governance provide 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 maximized 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, Hardjapamekas & Notowidigdo, 2012; Vogel, 2005). This complementary aspect potentially allows a possible alignment.

The influential agency theory – in contrast with the other corporate governance perspectives - emphasizes the discrepancy between owners and management. In an initial entrepreneurial and growth phase, organizations were run by its founders. With banks and capital markets providing the funds to finance the growth of some of those organizations, 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 delegating some decision-making authority to the agent. If both parties to the relationship are utility maximizers 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 optimize their own remuneration package with the goal of providers of capital who want to maximize 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 (Jensen, 1986, 2002; Farinha & de Foronda, 2005). 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 organization (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 & 2013; Demsetz, 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 organization (and not just to the shareholders), guaranteeing the implementation of the generic governance principles of transparency, fairness, accountability and responsibility (Verhezen, 2015). Without understanding, contextualizing and re-interpreting those four generic principles and without integrity, the governance principles will remain a compliance-and-thick-the-box-exercise without being able to exercise a more holistic perspective. Research has proven that an institutional and especially legally 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 (Kurzman & Yago, 2007; Kurzman, Yago & Phumiwasana, 2004; Lawler, Benson, Finegold & 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) allow 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 optimize 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.

<b> *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 maximizing 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 organization, 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 organization by developing and maintaining a leadership and managerial talent pool within the organization. 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 organization. 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 is an attempt to codify and institutionalize 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 to 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).

Primary, 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 to fire 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 percent of the board's time is focused on auditing and compliance issues (Leapen, Zou, Loadwick, Nettall, Stone & Simpson, 2021; Ramani & Saltman, 2019; Wong, 2011). In other words, boards spend a lot of their valuable time to verify past activities, be it in terms of complying to the international and national accepted accounting standards, or other legislative and legal requirements – especially when it concerns a public listed company. Aside of 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 organization to remain competitive in the future, to a futureproof organization. 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 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 (ecological, socio-ethical and governance) goals and metrics. The origin of this ESG-investing is found in ethics and ecological risk assessment. Within a US-based common law context, the shareholders' perspective is slightly amended as long as the risk-adjusted perspective of ESG-investing. A survey indicates that 22% of the corporate boards believe that ESG may violate their primary fiduciary duties, whereas 47% sees 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 a 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-oriented 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 (emphasizing 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 standardize 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 organization.

<b> *Do we need a different leadership and an amended governance model?*

What kind of leadership these boards need in this new reality of digitization 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 (Lorsh & 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 organization 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 1009).

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 organization, 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 organization's direction - without necessary forgoing the risk-adjusted return optimization (Schanzenbach & Sitkoff, 2020). Despite the prevailing agency theory within (Anglo-Saxon oriented) boards to maximize 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 (Krznaric, 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 optimize the shareholders' value while extending the fairness principle to those who have a real stake in the organization 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 optimize the annual performance while being also responsible for an eco-social sustainable organizational future (Freeman & Parman, 2020; Strebel, 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.

<a> Legitimacy of the board's behaviour through individual and organizational integrity

Corporate governance is about institutionalized 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 organization is based on documented and standardized procedures and codes (Tenbrunsel, Smith-Crowe & Umphress, 2003). It is the function of corporate governance to institutionalize those formal structures. In order 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 organization's informal organizational climate and in particular integrity at the highest level (Aguilera et al., 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 that these formal codes of conduct. Without an informal ethical organizational culture – underpinned by the principle 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.

<b> *Organizational integrity aligning legal compliance and organizational culture?*

In the first section of this chapter, I argued that corporate governance is a formal way to steer the organization and their agents away from unethical and illegal behaviour. In particular complying to a formal ethical code of conduct is been interpreted as a way to reduce that agency problem by specifying the ethical conduct of its organizational members (Weaver, 1993; Weaver, Trevino & Cochran, 1995 & 1999). Such rules-based or even principle-based code provides some guidelines to the agents and probably legitimatizes 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 organizations (Rouiller & Goldstein, 1993; Tracey, Tannenbaum & Kavanagh, 1995; Trevino 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 being knowledgeable of and experienced in the industry, and having 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. Organizational integrity implies that the entire organization is held to standards of integrity. Integrity discerns what is morally appropriate and what is not, implicitly implying consideration of other with whom one lives in a community or works in an organization (Carter, 1996; Paine, 1994; Srivastva & Barrett, 1988). Personal integrity can be expanded into the social domain, perceived as "organizational" integrity (Trevinyo-Rodriguez, 2007) becoming a social virtue which emphasizes a connectedness with a larger purpose, especially in "defining moments" (Badaracco, 1997). Organizational integrity creates informal standards to be aligned with formal corporate governance foundations that can provide the cultural cohesion for continued and committed organizational life (Verhezen, 2008, 2010).

In that sense, integrity reflects a certain professional responsibility and competence, emphasizing 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 organization.

Most multinational organizations 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-oriented strategies may provide superior results in tackling moral dilemmas (Cloud, 2006; Paine, 1994; Trevino & Weaver, 1999).

Integrity functions as an internal moral compass – i.e. internalized 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, 2008). That is where codes of conduct as part of corporate governance come in: providing a formal structure that aligns it with organizational integrity. In addition, a pragmatic re-interpretation 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, 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 minimize 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 (Hayes, 2004; 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 mere procedural, whereas integrity without being strongly embedded in corporate governance practices remains fuzzy and without any form of formal institutionalization.

Indeed, the argument boils down to the proposition that organizations 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 organization, whose reputation and foresight could benefit the organization 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 getting astray.

Organizations whose strategy aligns economic objectives with ethical and environmental goals may be able to foster organizational integrity. In the pursuit of nonfinancial 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, 2016; Trevinyo-Rodriguez, 2007; Verhezen, 2008B). Some may even argue that boards, characterized by a high level of integrity, may foster a competitive edge (Crossan, Furlong & Austin, 2023).

<b> *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 organizational 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, 2005; Verhezen, 2023). Integrity belongs to a very distinctive learning process beyond the intellectual and risk component that one teaches at Business Schools.

Organizations create value – monitored and supervised by the board of the organization – by reducing the errors and uncertainty within the organization, 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 organization, however, enables the board to embrace trustworthiness whereby integrity provides a more holistic vision of what the organization 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 optimizing 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-oriented 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 emphasize 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 energized 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 fundamental relational. It is this relational component that has led to forms of collaboration and cooperation without which humans would not have survived (Nowak, 2005). 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 result in a form of caring for those involved in the business. Organizational 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 harmonize those intentions in a way that benefits the organization 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 organization 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 (Van Liedekerke, Van Moor, Vanwalleghem, 2007; Gössling & Van Liedekerke, 2014).

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 customer and other stakeholders would trust such an organization (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 power in the company. A debatable decision, nonetheless, according to a number of legal scholars (Stout, 2012, 2013). Today, the shareholders are perceived to be the legal and legitimate owner of a business entity. It has been different before, and it may be again ... And although stock-holders 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 organizational normative culture in general.

<b> *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 organization or when it is in the interest of top management to remain ignorant, motivated [ethical] blindness may get engrained (Badaracco, 2003; Bazerman & Tenbrunsel, 2011; Calhoen, 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 maximize 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 to 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 counter-productive (Tenbrunsel, Smith-Crowe & Umphress, 2003). One cannot fully legalize or codify the notion of integrity. The best that can be hoped for is to align formal corporate governance with informal values, constituting an organizational 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 organizations to move beyond legality while embracing it all along instead of just moving away from it. By creating mindful awareness and interiorization 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 organization, tacit awareness will emerge. Ethical behaviour can strengthen the legal stance within the organization. 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 practice or implement those ethical values. If pushed too hard to "achieve results at any cost", they may even result in cutting corners, undermining any form of principled integrity.

An organizational culture that encourages ethical conduct and is committed to complying with rules and regulations is usually not emphasizing 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-oriented behaviour to motivate them to voluntarily adopt company values as their own. In organizations 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 organization 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, 2010; Verhezen, 2010, 2013) is often at the roots of causes of document theft and conflict of interest scandals that can cost an organization billions of dollars in fines and upheaval 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. Organizational integrity only survives when people speak their conscience (Gentile, 2010).

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 optimize sustainable organizational value.

An organization 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) is 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 investor surrogating a strategy with focusing on quarterly accounting results (i.e., net operating income) is real. Hence why I argued to align legal fiduciary duties to optimize financial performance with installing an organizational culture based on integrity of all members that allows to provide a certain level of legitimacy to its business and its members steering the organization.

<a> Future Research and Conclusion

Despite the enormous efforts in the field of corporate governance, business ethics, and organizational studies and decision-making, I believe that a number of questions remain that need to be further analyzed 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 the impact of legal judicial impact on 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 does Chinese and Southeast Asians look upon the assumptions of rational independent individuals in the agency theory that currently determine global corporate governance?

A second field of research to be further explored in international business ethics and organizational studies is a similar question around the diverging or converging trends around the notion of integrity across borders: to what extent is the Confusion 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 organizational 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 perspective 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 or organizational 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, organizations will thrive. The opposite is also true: organizations 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 optimize a risk-adjusted return. Both institutional corporate governance practices energized by the beacon of virtuous integrity of these board members and top executives can steer an organization toward a meaningful and prosperous future, a more futureproof organization.

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 organizational integrity with more formal corporate governance practices remains a work-in-process.

Bibliography

Agrawal, A. & S. Chadha (2005). Corporate Governance and Accounting Scandals, *The Journal of Law and Economics*, 48: 371-385.

Aguilera, R. V. & A. Cuervo-Cazurra (2004). Codes of Good Governance Worldwide: What is the trigger?, *Organization Studies*, 25(3): 417-446.

Aristotle, (1980). *The Nicomachean Ethics,* Oxford: Oxford University Press.

Aristotle, (1992). *The Politics,* London, Penguin Books.

Badaracco, J. L. (1997). *Defining Moments: When managers must choose between right and right*, Boston: Harvard University Press.

Badaracco, J. L. (2002). *Leading quietly: An unorthodox guide to doing the right thing*, Boston MA: Harvard Business School Press.

Badaracco, J. L. (2003a). "We Don't Need Another Hero". *Harvard Business Review on Corporate Ethics*, Boston MA: Harvard Business School Publishing, November: 1-18.

Badaracco, J. L., (2003b). "The Discipline of Building Character". *Harvard Business Review on Corporate Ethics*, Boston MA: Harvard Business School Publishing, October: 139-164.

Badaracco, J. L.(2006). *Questions of Character: Illuminating the heart of Leadership through Literature*, Boston MA: Harvard Business School Press.

Badaracco, J. L. (2013). *The Good Struggle: Responsible Leadership in an Unforgiving World*, Cambridge MA: Harvard Business School Press.

Badaracco, J. L. (2016). *Managing in the Gray: Timeless questions for resolving your toughest problems at work*, Cambridge MA: Harvard Business School Press.

Bainbridge, S. M. (2008). *The New Corporate Governance in Theory and Practice*, Oxford: Oxford University Press.

Bazerman, M. H. & A. H. Tenbrunsel (2011). "Ethical Breakdowns. Good people often let bad things happy: Why?", *Harvard Business Review*, April: 58-65.

Bebchuk, L. (2009). "Long-term performance is key", *Harvard Business Review*, September: 40-47.

Bebchuk, L. (2021). "Don't let the Short-Termism Bogeyman scare you", *Harvard Business Review*, January-February: 42-47.

Bebchuk, L. & J. Fried (2004). *Pay without Performance: The Unfulfilled Promise of Executive Compensation*, Cambridge MA: Harvard University Press.

Bebchuk, L., Kraakman, R. & G. Triantis, (2000). "Stock pyramids, cross ownership, and dual class equity: The creation and agency costs of separating control from cash flow rights", in Morck, R. K. (Ed.), *Concentrated Corporate Ownership*, Chicago: University of Chicago Press.

Bebchuk, L., Cohen, A. & A. Ferrell (2004). "What matters in corporate governance?", Harvard Discussion Paper no 491 as revised for publication in *The Review of Financial Studies.*

Beiner, S., Drobetz, W., Schmid, M. M. & H. Zimmermann. (2004). "An Integrated Framework of Corporate Governance and Firm Valuation: Evidence from Switzerland", *Finance Working Paper no 34/2004*. https://www.ecgi.global/sites/default/files/working_papers/documents/SSRN-id489322.pdf

Berle, A.A. & G.C. Means (1932). *The modern corporation and the private property*, New York, Harcourt Brace

Bhagat, S. & B. Bolton (2008). "Corporate Governance and Firm Performance", *Journal of Corporate Finance*, Vol. 14: 257-273

Calhoun, C. (1995). "Standing for Something", *The Journal of Philosophy*, Vol XCII, no 5, pp. 235-260.

Carter, S. (1996). *Integrity*, New York: HarperCollins Publishers.

Carter, C. B.& J. W. Lorsch (2004). *Back to the Drawing Board: Designing corporate boards for a complex world*, Boston CA: Harvard Business School Press.

Carver, J. (2010). "A case for Global Governance Theory: Practitioners Avoid it, Academics Narrow it, the World needs it", *Corporate Governance: An International Review*, Vol. 18 (2): 149-157.

Charan, R. (2005). *Boards that deliver: Advancing corporate governance – from compliance to competitive advantage*, San Fransisco: Jossey Bass.

Charan, R. (2009). *Owning Up: The 14 Questions Every Board Member Needs to Ask*, San Francisco: Jossey-Bass.

Charan, R., Carey, D. & M. Useem (2014). *Boards that Lead: When to take charge, when to partner, and when to stay out the way*, Cambridge MA: Harvard Business Review Press

Chew, D. H. & S.L. Gillan (Eds) (2009). *Global Corporate Governance*, New York: Columbia Business School Press.

Claessens, S., Djankov, S., Fan, J. P. H. & L. H. P. Lang (2002). "Disentangling the incentive and entrenchment effects of large shareholders", *Journal of Finance*, Vol. 57: 2741-2771.

Claessens, S. & B. B. Yurtoglu (2013). "Corporate Governance in emerging markets: A survey", *Emerging Markets Review*, Vol. 15: 1-33.

Clarke, T. (Ed.) (2004). *Theories of Corporate Governance: The philosophical foundations of corporate governance*, New York: Routledge.

Clarke, T. (2007). *Corporate Governance*, New York: Routledge.

Cloud, H. (2006). *Integrity: The courage to meet the demands of reality*, New York: Collins.

Crossan, M., Furlong, W. & R. D. Austin (2023). "Make Leader Character Your Competitive Edge", *MIT Sloan Management Review*, Winter, Vol. 64 (2): 40-47.

Demsetz, H. & B. Villalonga (2001). "Ownership structure and corporate performance", *Journal of Corporate Finance*, Vol.7: 209-233.

Dimma, W. (2002). *Excellence in the Boardroom: Best Practices in Corporate Directorship*, Ontario: Wiley & Sons Canada.

Doidge, C., Karolyi, G. A. & R. M. Stulz (2007). "Why do countries matter so much for corporate governance?", *Journal of Financial Economics*, Vol. 86: 1-39.

Donaldson, T. L. & L. E. Preston (1995). "The stakeholder theory of the corporation: concepts, evidence, and implications", *Academy of Management Review*, Vol. 20(1): 65-91.

Erhard, W. H., Jensen, M. C. & S. Zaffron (2010. "Integrity: A positive model that incorporates the normative phenomena of Morality, Ethics, and Legality", *Harvard Business School Working Paper*, March.

Erhard, W. H. & M. C. Jensen (2011). "The Three Foundations of a Great Life, Great Leadership, and a Great Organization, *Harvard NOM Unit Research Paper* No. 11-122.

Fama, E. (1980). "Agency problems and the theory of the firm", *Journal of Political Economy*, Vol. 88: 288-307.

Fama, E. & M. Jensen (1983). "Separation of ownership and control", *Journal of Law and Economics*, 26: 310-325.

Farinha, J. & O. L. de Foronda (2005). "The relationship between dividends and insider ownership in different legal systems: international evidence", Working Paper CETE.

Fehr, E. & S. Gächter (1998). "Reciprocity and Economics: the economic implications of homo reciprocans", *European Economic Review*, Vol. 42: 854-856.

Fehr, E. & A. Falk (2002). "Psychological foundations of incentives", *European Economic Review*, Vol. 46: 687-724.

Freeman, E. (Ed.) (2010). *Stakeholder Theory*, Cambridge: Cambridge University Press

Freeman, E., Martin, K. E. & B. L. Parmar (2020). *The Power of AND. Responsible Business without Trade-offs*, New York: Columbia University Press.

Friedman, M. (1970). “The social responsibility of business is to increase its profits”, *New York Times Magazine,* September 13, pp.32-33.

Gazzaniga, M. (2018: 52–54). *The Conscious Instinct. Unravelling the Mystery of How the Brain Makes the Mind*, New York: Farrar, Straus and Giroux.

Gardner, W. L., Avolio, B. J., Luthans, F., May, D. R. & F. Walumbwa (2005). “Can you see the real me? A self-based model of authentic leader and follower development”, *The Leadership Quarterly*, Vol.16: 343-372.

Gelb, J., McCarthy, R., Rehm, W. & A. Voronin (2023). “The investors that matter still want you to focus on the long term”, *McKinsey & Company*, April.

Gelter, M. (2009). “The Dark Side of Shareholder Influence: Managerial Autonomy and Stakeholder Orientation in Comparative Corporate Governance”, *Harvard International Law Journal*, Vol 50(1): 129-194.

Gentile, M. (2010a). *Giving Voice to Values. How to speak your mind when you know what is right*, Illinois: Yale University Press.

Gentile, M. C. (2010b). “Keeping your colleagues honest”, *Harvard Business Review*, March, pp.114-117.

George, B. (2004). *Authentic Leadership: Rediscovering the Secrets to Creating Lasting Value*, New Jersey: John Wiley & Sons.

George, B. (2009). *7 Lessons for Leading in Crisis*, New Jersey: John Wiley & Sons.

George, B. & P. Sims, (2007), *True North. Discover your Authentic Leadership*, San Francisco, John Wiley & Sons.

Gillan, S. L. & L. T Starks (2003). “Corporate Governance, Corporate Ownership, and the Role of Institutional Investors: A Global Perspective”, Working Paper, John Weinberg Center for Corporate Governance at University of Delaware.

Gompers, P. A., Ishii, J. & A. Metrick (2003). “Corporate Governance and Equity Prices”, *Quantitative Journal of Economics*, Vol.118: 107-155.

Gössling, T. & L. Van Liedekerke (2014), “Editorial: Caring Organizations”, *Journal of Business Ethics*, Vol. 120: 437-440.

Habermas, J. (1998). *The Inclusion of the Other: Studies in Political Theory*, [1996, Die Einbeziehung des anderen. Studien zur politischen Theorie], MA Boston: The MIT Press.

Habermas, J. (2005). *Truth and Justification*, [1999, *Wahrheit und Rechtfertigung*], MA Boston: The MIT Press.

Hansen, M. T; Ibarra, H. & U. Peyer (2013). “The best performing CEOs in the world”, *Harvard Business Review*, Jan-Febr: 81-95.

Harris, M. & B. Taylor (2019). “Don’t Let Metrics Undermine Your Business: An Obsession with Number Can Sink Your Strategy”, *Harvard Business Review*, September–October: 63–67.

Hays, J. M. (2003). “Dynamics or Organizational Wisdom”, Working Paper Australian National University

Hillman, A. J., Cannella, A. A., & Paetzold, R. L. (2000). “The resource-dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change”, *Journal for Management Studies*, Vol. 37 (2): 235-255.

Hillman, A. J. & Dalziel, T. (2003). “Board of directors and firm performance: Integrating agency and resource dependence perspectives”, *Academy of Management Review*, Vol. 28(3): 383-396.

Hume, D. (1739 , 2003). *A Treatise of Human Nature*, New York: Dover Philosophical Classics Books.

Hume, D. (1751 & 1958). *Enquiry Concerning the Principles of Morals*, New York: Haffner Classics.

Huse, M. (2005). “Corporate Governance: Understanding Important Contingencies”, *Corporate Ownership & Control*, Vol. 2(4): 41-50.

Huse, M. (2007). *Boards, Governance and Value Creation*, Cambridge: Cambridge University Press.

Ilies, R., Morgeson, F. P. & J. D. Nahrgang (2005). “Authentic leadership and eudaemonistic well-being: Understanding leader-follower outcomes”, *The Leadership Quarterly*, Vol. 16: 373-394.

Jensen, M. C. (1986). “Agency cost of free cash flow, corporate finance, and takeovers”, *American Economic Review*, Vol. 76: 323-329.

Jensen, M. C. & W. H. Meckling (1976). Theory of the Firm: Managerial behavior, agency costs and ownership structure, *Journal of Finance Economics*, Vol. 3: 305-360.

Jensen, M. C. (2002). “Value maximization, stakeholder theory, and the corporate objective function”, *Business Ethics Quarterly*, Vol. 12(2): 235-256.

Kennedy-Glans, D. & B. Schulz (2005). *Corporate integrity. A Toolkit for managing beyond compliance*, Ontario: John Wiley & Sons.

Khanna, T.; Kogan, J.& K. Palepu (2006). “Globalization and Corporate Governance Convergence: a cross-country analysis”, *Review of Economics and Statistics*, Vol. 88: 69-90.

Koehn, D. (2005). “Integrity as a business asset”, *Journal of Business Ethics*, 125-136.

Krznaric, R. (2020). *The Good Ancestors. How to Think Long-Term in a Short-Term World,* London: Penguin.

Kurtzman, J., Yago, G., & Phumiwasana, T. (2004). The global cost of opacity, *MIT Sloan Management Review*, Fall, 38-44.

Kurtzman, J. & Yago, G. (2007). *Global edge: Using the Opacity Index to manage the risks of cross-border business*, Boston, MA: Harvard Business School Press.

La Porta, R., Lopez-De-Silanes, F. & A. Schleifer (1999). “Corporate ownership around the world”, *Journal of Finance,* Vol. 54(2): 471-517.

La Porta, R., Lopez-De-Silanes, F. Schleifer, A. & R. Vishny (2000). “Investor protection and corporate governance”, *Journal of Financial Economics*, Vol. 58: 3-27.

La Porta, R., Lopez-De-Silanes, F. Schleifer, A. & R. Vishny (2002). “Investor protection and corporate valuation”, *Journal of Finance*, Vol. 57: 1147-1170.

Lawler, E. E., Finegold, D, Benson, G. S. & J. A. Gonger (2002). “Corporate Boards: keys to effectiveness”, *Organizational Dynamics*, Vol. 30 (4): 310-324.

Larcker, D. & B. Tayan (2011). *Corporate Governance Matters. A closer look at Organizational Choice and their Consequences*, New Jersey: FT Press.

Leapen, S.; Zou, J.; Loadwick, O.; Nuttall, R.; Stone, M. & B. Simpson (2021). “What matters most. Five priorities for CEO in the next normal”, *McKinsey & Company.*

Lennick, D. & F. Kiel (2005). *Moral intelligence. Enhancing Business Performance & Leadership Success*, New Jersey: Wharton School Publishing.

Lin, X. & C. L. Wang (2008). “Enforcement and Performance: the role of ownership, legalism and trust in international joint ventures”, *Journal of World Business*, Vol. 43: 340-351.

Lorsch, J. W. & R. C. Clark (2008). “Leading from the Boardroom”, *Harvard Business Review,* April, pp.104-111.

Lozano, M. B., Martinez, B. & J. Pindado (2016). “Corporate governance, ownership and firm value: Drivers of ownership as a good corporate governance mechanism”, *International Business Review*, Vol. 25: 1333-1343.

Macey, J. R. (2008). *Corporate Governance. Promises Kept, Promises Broken*, New Jersey: Princeton University Press.

Macey, J. R. (2013). *The death of Corporate Reputation; How Integrity has been destroyed on Wall Street*, New Jersey: Pearson Education FT Press.

Mallin, C. (2004). *Corporate Governance*, Oxford: Oxford University Press.

Margolis, J. D. & J. P. Walsh (2001). “Does it pay to be good? An analysis and redirection of research on the relationship between corporate social and financial performance”, Working Paper, Harvard University.

Margolis, J. D. & J. P. Walsh (2003). “Misery loves companies: Social initiatives by business”, *Administrative Science Quarterly*, 48: 268-305.

McDonald, G. (2000). “Business ethics: Practical proposals for organizations”, *Journal of Business Ethics,* Vol. 25: 169–184.

McFall, L. (1987). “Integrity”, *Ethics*, 98: 5-20.

McKenna, B., Rooney, D. & K. B. Boal (2009). “Wisdom principles as a meta-theoretical basis for evaluating leadership”, *The Leadership Quarterly*, Vol. 20: 177-190.

Monks, R. A. G. & N. Minow (2004). *Corporate Governance*, Malden, Blackwell Publications.

Moyo, D. (2021). *How Boards work. And how they can work better in a chaotic world, London*: The Bridge Street Press.

Neves, P. & J. Story (2015). “Ethical leadership and reputation: combined indirect effects on organizational deviance”, *Journal of Business Ethics*, Vol. 127: 165-176.

Nonaka, I. & H. Takeuchi (2019). *The Wise Company. How companies create continuous innovation*, Oxford: Oxford University Press.

Nonaka, I. & H. Takeuchi (2021). “Strategy as a way of life”, *MIT Sloan Management Review*, Fall, Vol. 63(1): 56-63.

Nowak, M.A. (2006). “Five Rules for the Evolution of Cooperation”, *Science*, Vol. 314: 1560–1563.

Oberholzer-Gee, F. (2021). *Better, Simpler Strategy. A Value-based Guide to Exceptional Performance*, Cambridge MA: Harvard Business Review Press.

Paine, L.S. (1994). “Managing for Organizational integrity”, *Harvard Business Review*, Boston MA, Vol 72, pp. 106-117.

Paine, L.S. (2003). *Values Shift*, New York: McGrawHill.

Peng, M. W. (2003). "Institutional transitions and strategic choices", *Academy of Management Review*, 28(2): 275-296.

Peng, M. W. & J. Q. Zhou (2005). “How Network Strategies and Institutional Transitions evolve in Asia”, *Asia Pacific Journal of Management*, 22: 321-336.

Pfeffer, J.(1972). "Size and Composition of Corporate Boards of Directors: The Organization and its Environment", *Administrative Science Quarterly*, **17**: 218-229.

Pfeffer, J. and G. R. Salancik (1978). *The External Control of Organizations: A Resource Dependence Perspective*. New York: Harper and Row.

Pfeffer, J. (2015). *Leadership BS. Fixing Workplaces and Careers. One truth at a time*, New York: Harper Business.

Porter, M. & M. Kramer (2006). “Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility”, *Harvard Business Review,* Boston, December: 78-93.

Porter, M. & M. Kramer (2011). “Creating Shared Value”, *Harvard Business Review*, Jan-Febr: 62-77.

Rajan, R.G. & J. Wulf (2006). “Are perks purely managerial excess?”, *Journal of Financial Economics*, Vol. 79: 1-33.

Raworth, K. (2017). *Doughnut Economics. Seven ways to think like a 21st Economist*, London: Random House Business Books.

Ramani, V. & H. Saltman (2019). “Running the Risk. How corporate boards can oversee ESG issues”, *Ceres.org.*

Reddy, K.; Locke, S. & F. Scimgeour (2010). “The efficacy of principle-based corporate governance practices and firm financial performance. An empirical investigation”, *The International Journal of Managerial Finance*, Vol. 6(3): 190-219.

Rezaee, Z. (2007). *Corporate governance post-Sarbanes-Oxley: Regulations, requirements, and integrated processes*, Hoboken-New Jersey: John Wiley & Sons.

Rezaee, Z. (2009). *Corporate governance and ethics*. Hoboken-New Jersey: John Wiley & Sons.

Roberts, J., McNulty, T., & Stiles, P. (2005). “Beyond agency conceptions of the work of the non-executive director: Creating accountability in the board room”, *British Journal of Management*, Vol. 16: 5-26.

Roberts, C.M. & M.W. Summerville (2016). “The Mindful Board”, *Organization & People*, January 25.

Roe, M.J. (2002). “Can culture constrain the economic model of corporate law”, *University of Chicago Law Review,* Vol.

69(3): 1251-1269.

Rouiller, J. Z. & I.L. Goldstein (1993). “The relationship between organizational transfer climate and positive transfer of training”, *Human Resources Development Quarterly*, Vol. *4*: 377–390.

Rose, J. (2007). “Corporate Directors and Social Responsibility: Ethics versus Shareholder Value”, *Journal of Business Ethics*, Vol. 73: 319-331.

Salter, M.S. (2012). “How Short-Termism Invites Corruption…And what to do about it”, *Harvard Business School Working Paper*, April, 12-094.

Schanzenbach, M.M. & R.H. Sitkoff (2020). “Reconciling Fiduciary Duty and Social Conscience. The Law and Economics of ESG Investing by a Trustee”, *Stanford Law Review*, February, Vol. 72: 381-454.

Schleifer, A. & R. Vishny (1997). “A survey of corporate governance”, *Journal of Finance*, Vol.52: 737-783.

Schwartz, S.H. (1992). “Universals in the content and structure of values: theoretical advances and empirical tests in 20 countries”, in M.P. Zanna (Ed), *Advances in experimental social psychology*, Vol. 25: pp.1-65, San Diego: California Academic Press.

Schwartz, M.S. (2005). “Universal Moral Values for Corporate Code of Ethics”, *Journal of Business Ethics*, 59, pp.27-44.

Schwartz, B. (2011). “Practical Wisdom and Organizations”, *Research in Organizational Behavior*, Vol. 31: 3-23.

Shell, G.R. (2021). *The Conscience Code. Lead with Your Values. Advance Your Career,* New York: Harper Collins.

Serafeim, G. & J. Grewal (2019). “ESG Metrics: Reshaping Capitalism”, *Harvard Business School Working Paper* 9-116-037.

Siegel, J.D. (2017). *Mind. A Journey to the Heart of Being Human,* New York: Norton & Company.

Siegel, J.D. (2018). *Aware. The Science and Practice of Presence. The Groundbreaking Meditation Practice,* New York: A Tarcher Perigee Book.

Simons, S. (2002). “Behavioral Integrity: the perceived alignment between manager’s words and deeds as a researcher focus”, *Organizational Science*, Vol.13 (1):18-35.

Simons, T., Hannes, L., & L. Nishi (2022). “Revisiting behavioral integrity: Progress and new directions after 20years”, *Annual Review of Organizational Psychology and Organizational Behavior, 9*, 365–89.

Simons, T., Leroy, H., Collewaert, V. & S. Masschelein (2015). “How leader alignment of words and deeds affects followers: a meta-analysis of behavioral integrity research”, *Journal of Business Ethics,* Vol. 132(4): 831–844.

Smith, A. (1759 & 2016). *The Theory of Moral Sentiments*, London: Penguin.

Srivastva, S. & F. Barrett (1988). “Foundations for Executive Integrity: Dialogue, Diversity, Development”, in Srivastva, S. (Ed), *Executive Integrity. The Search for High Human Values in Organizational Life*, San Francisco; London: Jossey-Bass Publishing: 290-320.

Stout, J.H. & R. Li (2004). “Corporate Governance and Organizational Integrity”, *University of St. Thomas Law Journal*: 925-950.

Stout, L.A. (2012). *The Shareholder Myth: How putting Shareholders first harms Investors, Corporations, and the Public*, San Francisco: Berrett-Koehler Publications.

Stout, L.A. (2013). “The Shareholder Myth”, *Cornell Law Faculty Publications*, Paper 771.

Strebel, P.; Cossin, D. & M. Khan (2020). “How to Reconcile Your Shareholders with Other Stakeholders”, *MIT Sloan Management Review*, Fall: 63–69.

Tenbrunsel, A.E.; Smith-Crowe, K. & E.E. Umphress (2003). “Building Houses on Rocks: the Role of the Ethical Infrastructure in Organizations”, *Social Justice Research*, September, Vol. 16 (3): 285-307.

Thiele, L.P. (2006). *The Heart of Judgment. Practical Wisdom, Neuroscience, and Narrative*, Cambridge: Cambridge University Press.

Thompson, E. (2007). *Mind in Life*. *Biology, Phenomenology, and the Sciences of Mind,* Cambridge MA; London: The Belknap Press of Harvard University Press.

Thompson, E. (2015–2017). *Waking, Dreaming, Being*. *Self and Consciousness in Neuroscience, Meditation, and Philosophy,* New York: Columbia University Press.

Timmons, M. (1999). *Morality without Foundations. A Defense of Ethical Contextualism*, Oxford: Oxford University Press.

Tomasello , M. (2019). *Becoming Human. A Theory of Ontogeny*, Cambridge MA: Belknap Press of Harvard.

Tracey, J. B., Tannenbaum, S. I. & M.J. Kavanagh (1995). "Applying trained skills on the job: The importance of the work environment", *Journal of Applied Psychology,* Vol. 80: 239–252.

Trevino, L.; G. Weaver; D. Gibson & B. Toffler (1999). "Managing ethics and legal compliance: what works and what hurts', *California Management Review,* Vol 40 (2): 131-151.

Trevino, L.; Hartman, L. & M. Brown (2000). "Moral Person and Moral Manager: How executives develop a reputation or ethical leadership", *California Management Review*, Vol. 41 (4): 131-151.

Trevinyo-Rodriguez, R. (2007). "Integrity: a systems theory classification", *Journal of Management History*, Vol.13 (1): 74-93.

Tricker, B. (1978 – 2023; 5th edition). *Corporate Governance*, Oxford: Oxford University Press.

Tyler, T. R. (2001). "A psychological perspective on the legitimacy of institutions and authorities", In Jost, J. T., B. Major, (eds.), *The Psychology of Legitimacy: Emerging Perspectives on Ideology, Justice, and Intergroup Relations*, Cambridge UK: Cambridge University Press: 416–436.

Van Liedekerke, L., De Moor, L. & D. Vanwalleghem (2007). "Risk-Return of Belgian SRI-Funds", Department of Finance, Accountancy and Insurance (AFI), *KUL Working Paper*

Van Liedekerke, L. (2005). "Professionaliteit, vertrouwn en integriteit", *Ethische Perspectieven*, Vol. 15(1): 29-33.

Verhezen, P. (2008). "The Paradox of Reputation", *Cultura Ecónomica*, Mayo, Vol.16 (71): 29-41.

Verhezen, P. (2008B. "The (ir)relevance of integrity in organizations", *Public Integrity*, Vol. 10(2): 133-149.

Verhezen, P. (2010). "Giving Voice to a Culture of Silence: from a culture of compliance to a culture of integrity", *Journal of Business Ethics*; Vol. 96 (2): 187-206.

Verhezen, P. (2013). "Do as the Romans do in Rome? A "pragmatic" corporate governance perspective beyond ethical relativism in Asian Emerging Markets", in Rothlin & Haghirian, *Business Ethics in Asia*, Heidelberg; New York; London: Springer, pp.91-107.

Verhezen, P. (2015). "Fear, Regret or Trust? Transparency to control or transparency to empower", *International Finance Corporation (World Bank group) Paper*, No 38, Washington DC.

Verhezen, P. (2015B). *The Vulnerability of Corporate Reputation. Leadership for Sustainable Long-term Value*, Berkshire: Palgrave Pivot Publishing.

Verhezen, P. (2023). *Making Wise Decisions in a Smart World. Responsible Leadership in an era of Artificial Intelligence*, London; Singapore: World Scientific Publishing.

Verhezen, P. & P. Morse (2010). "Fear, Regret and Transparency. Corporate Governance embracing disclosure and integrity", *WorldBank-NACC (Thailand)*: Public Affairs Publishing: 27-54.

Verhezen, P.; Notowidigdo, P. & E. Riyana Hardjapamekas (2012). *Improving Corporate Governance in Indonesia. What do Indonesian corporations gain from good corporate governance?* Jakarta: University of Indonesia Press.

Verhezen, P, Williamson, I., Crosby, M., & N. Soebagjo (Eds) (2016). *Doing business in ASEAN markets. Leadership challenges and governance solutions across borders*, London: Palgrave MacMillan Springer Publications.

Verhezen, P. & G. Martin (2017). "Corporate Governance & Ethical Behavior affecting Performance: Propositions and Peculiarities at Indonesian Firms within its Institutional context", *A Melbourne Business School and IFC Working Paper.*

Verhezen, P. & T. Abeng (2022). *The Boardroom. A Guide to Effective Leadership and Good Corporate Governance in Southeast Asia*, Berlin: De Gruyter.

Vogel, D. (2005). “Is there a Market for Virtue? The Business Case for Corporate Social Responsibility”, *California Management Review,* Vol.47 (4): 19-45.

Waddock, S. (2009). *Leading Corporate Citizens. Vision, Values, Value Added*, Boston: McGraw Hill-Irwin.

Wallace, P. & J. Zinkin (2005). *Corporate Governance. Mastering Business in Asia,* Singapore: John Wiley & Sons.

Weaver, G. R. (1993). “Corporate codes of ethics: Purpose, process, and content issues”, *Business and Society,*Vol.32: 44–58.

Weaver, G. R., Trevino, L. K., & P.L. Cochran (1995). “Corporate ethics practices in the Mid-1990’s: An empirical study of the Fortune 1000”, *Journal of Business Ethics*, Vol. 18: 283–294.

Weaver, G. R., Trevino, L. K. & P.L. Cochran (1999). “Integrated and decoupled corporate social performance: Management commitments, external pressures, and corporate ethics practices. *Academy of Management Journal,* Vol. 42: 539–552.

Wong, S.C.Y. (2011). “Boards: when Best Practice isn’t enough”, *McKinsey Quarterly.*

Yadong, L. (2005). “Corporate governance and accountability in multinational enterprises: Concepts and agenda”, *Journal of International Management*, Vol. 11: 1-18.

Young, S. B. (2007). “Fiduciary Duties as a Helpful Guide to Ethical Decision-Making in Business”, *Journal of Business Ethics*, Vol.74: 1-15.

Zingales, L. (1998). *Corporate Governance. The New Palgrave Dictionary of Economics and Law*, London: MacMillan.