

## Chapter 5

# Business Ethics, Strategy, and Organizational Integrity: The Importance of Integrity as a Basic Principle of Business Ethics that Contributes to Better Economic Performance

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### ABSTRACT

*With a focus on the role of integrity in relation to business ethics versus economic strategy, this chapter contains following sections: 1) the concept of organizational integrity as a moral notion as it is described in the work of Lynn-Sharp Paine on organizational integrity, 2) the concept of integrity as an economic notion as it is described in the recent work of Michael Jensen—this section discusses recent efforts in the business economics literature to consider integrity as an important notion of strategy—, 3) Paine contra Jensen: a virtue or a workability concept of integrity—here, the authors discuss the basic dilemmas and problems of integrating integrity, economic performance, and strategy in the perspective of the two theories about integrity of Paine and Jensen.*

### INTRODUCTION

What is the role of integrity in business ethics and how does it relate to management education? Initially, I considered integrity as philosophical value of virtue, linked to the ideas of autonomy, dignity and vulnerability (Rendtorff, 2009). However, integrity is also becoming a very popular concept of business strategy, indicating coherence,

purity or completeness of a totality. And integrity signifies a personal and organizational virtue of commitment and loyalty. Recently business economists like the famous Harvard economist Michael C. Jensen together with his colleagues Werner Erhard and Steve Zaffron has argued that integrity is the most important concept for dealing with ethics in a paradigm of economic performance and instrumental agency. Moreover, the business

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lawyer and ethicist Lynn Sharp Paine argues for an “integrity strategy” where integrity is considered important for the strategy of the firm. So the notion of integrity is not only associated with true identity, honesty respect and trust, but it is also related to concepts of strategy and the economic performance of the firm. Thus, the paper looks at the function of integrity in the development of economic strategy and discusses why integrity is important as a basic principle of business ethics in order to build a good strategy and the economic performance of the firm.

Accordingly, with this focus on the role of integrity in relation to strategy and economic performance the chapter will contain the following sections:

1. The Concept of Organizational Integrity as a Moral Notion as It Is Described in the Work of Paine on Organizational Integrity. This concept can be defined as “ethical integrity”.
2. The Concept of Integrity as an Economic Notion as It Is Presented in the Recent Work of Erhard and Jensen. This concept can be defined as “economic integrity”. This section will discuss recent efforts in the business economics literature to consider integrity as an important notion of strategy and performance.
3. The Ethical View Contra the Economic View: A Virtue or a Workability Concept of Integrity. Here we confront the ethical view with the economic view of integrity and discuss the basic dilemmas and problems of integrating integrity, economic performance and strategy in the perspective of the two theories about integrity of Paine and Jensen.
4. Conclusion: Towards Integrity as Corporate Citizenship. Here, I summarize the discussion of the article with focus on the consequences for management education and I briefly present my own point of view

of integrity as corporate citizenship that goes beyond the confrontation of Paine and Jensen.

With this approach the chapter addresses a very central, but also rather narrow, topic within the literature and possible research questions related to integrity. The reader may ask what the reason is for doing this and what the criteria for selection of literature and authors may have been. Moreover, a relevant issue is whether the selected literature brings us further on in the study of integrity related to management education.

In my response to these methodological questions I would like to stress that I have addressed the problem of integrity in a number of books and articles (Rendtorff, 2000; Rendtorff, 2002; and Rendtorff, 2011) and also in my recent book *Responsibility, Ethics and Legitimacy of Corporations* (Rendtorff, 2009). The topic of this paper is an attempt to look at the major problem of the relation between ethical and economic approaches to integrity strategies – a problematic that emerged as central out of my earlier research on the topic. I have selected the work of Paine and Jensen, Erhard and Zaffron to discuss this topic because they represent the most influential views and most developed investigations of their views; namely the “ethical integrity view” as opposed to the “economic integrity view”. The reason that I rely heavily on the theories of Paine and Jensen is to try to do a careful reading of their points of view in order show how we need to overcome the opposition between those authors when we really want to understand the need for integrity in management education. There is not really any need to look at other approaches within the literature on integrity because these two approaches and their essential content are very well represented by the selected authors.

The work of Paine may be said to represent the oldest and more classical approach to ethics,

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