

The Challenge of Leadership Accountability for Integrity Capacity as a Strategic Asset

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ABSTRACT. The authors identify the challenge of holding contemporary business leaders accountable for enhancing the intangible strategic asset of integrity capacity in organizations. After defining integrity capacity and framing it as part of a strategic resource model of sustainable global competitive advantage, the stakeholder costs of integrity capacity neglect are delineated. To address this neglect issue, the authors focus on the cultivation of judgment integrity to handle behavioral, moral and hypothesized economic complexities as key dimensions of integrity capacity. Finally, the authors recommend two leadership practices to build competence in business leaders to enhance integrity capacity as an organizational strategic asset.

KEY WORDS: accountability, capacity, integrity, leadership

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Introduction

Business leadership affects the moral capability and performance of organizations (Finkelstein and Hambrick, 1996; Trevino et al., 1998; Ciulla, 1995). Business leaders influence the scope and character of formal ethics programs and the integration of ethics into everyday organizational life (Weaver et al., 1999a, 1999c; Buller and McEvoy, 1999; Dukerich et al., 1990). However, business leaders are often seriously out of touch with the perceptions of their rank and file employees about organizational life, and are not held accountable for the multiple costs incurred by their neglect of integrity capacity as a key intangible, strategic asset (Trevino et al., 2000; Petrick and Quinn, 2000).

The record on business leadership accountability is mixed at best (Munro and Mouritsen, 1996; Monks, 1991). In Great Britain, continental Europe and Australia, the practice of social and environmental accounting has gained a strong foothold and expanded the scope of business leader accountability beyond maximizing shareholder wealth (Mathews, 1997; Lehman, 1999). The work of the Institute of Social and Ethical Accountability and other empirical research groups have demonstrated the corporate social performance-financial performance link (Waddock and Graves, 1997; Herremans et al., 1993). Nevertheless, most practicing business leaders in most countries most of the time are not held accountable for dysfunctional moral, social and environmental performance (Karliner, 1997; Korten, 1995, 1999). In terms of global accountability, many corporate leaders act under the myth that the public interest is synonymous with corporate property rights (Mokhiber and



Weissman, 1999). Corporate business leadership's external accountability only becomes an issue where a solid line is drawn between these two spheres. However, since fifty-one of the world's largest economies are corporations, many corporate leaders are seldom held accountable for adverse impacts of their decision making, e.g., deepening poverty, social disintegration and environmental destruction (Karliner, 1997). Many current U.S. CEOs would concur with the aphorism that "what's good for Microsoft is good for the world," when in fact "what's good for corporate leaders may be highly injurious to the world," e.g., widespread corporate leadership endorsement or condoning of migration of "dirty industries" to developing countries (Korten, 1999).

In addition, leaders and top management teams (TMTs) have been criticized strategically for inordinate commitment to status quo processes, having an unwarranted rosy view of organizational ethics, and varying substantially in implementing ethics policies with ethics-specific structures and activities (Weaver et al., 1999a, 1999b; Hambrick et al., 1993). These intra-organizational patterns of eluding accountability, along with widespread use of power to evade external accountability, indicate the nature of the challenge of generating a model for holding corporate leaders accountable.

This paper addresses this challenge by treating the following themes: (1) integrity capacity as a key intangible strategic asset, for the nurturing and protection of which, corporate leaders can be held accountable, (2) judgment integrity and leadership accountability for handling behavioral, moral and hypothesized economic complexities, and (3) two practitioner practices to better prepare leaders for responsibility in managing integrity capacity as a strategic organizational asset.

Integrity capacity as an intangible strategic asset

Integrity capacity is the individual and/or collective capability for repeated process alignment of moral awareness, deliberation, character and

conduct that demonstrates balanced judgment, enhances sustained moral development and promotes supportive systems for moral decision making (Petrick and Quinn, 2000). The four key dimensions of integrity capacity are: process, judgment, development and system. Each of these intangible dimensions constitutes a vital ingredient in an organization's resource base and presents challenges for business leaders (Carter, 1996; Sethi and Sama, 1998).

Business leaders and organizations with high integrity capacity are more likely than competitors to be aware of and more rapidly respond to stakeholder moral concerns, arrive at balanced decisions that form sound policies, and build supportive systems that sustain excellence (Litz, 1996; Driscoll and Hoffmann, 1999). They exhibit a coherent unity of purpose and action in the face of moral complexity and conflicting values rather than succumb to administrative inertia or irresponsible decision making (Buller et al., 1997; Petrick, 2000; Srivastva, 1988). Business leaders and firms with low integrity capacity (those that do not "walk the talk" in the process of daily transactions, those that exercise poor or distorted judgment in policy formulation, those that never morally mature beyond manipulative acquisitiveness and domination rituals, and those that refrain from enacting supportive contexts for sound moral decision making) erode their reputational capital and put themselves at a strategic disadvantage (Sejersted, 1996; Weber, 1995). Internal and external stakeholders exact a price for victimization, and ignoring the risks of neglected integrity capacity enhancement is the expanded strategic responsibility for which contemporary business leaders are being held implicitly (and often explicitly) accountable (Hambrick and D'Aveni, 1992; Dienhart, 1999).

The Strategic Resource Model of Sustainable Global Competitive Advantage depicts the processes that link the key role of managing integrity capacity as an intangible resource to eventual strategic success as displayed in Figure 1 (Petrick et al., 1999). Achieving sustainable competitive advantage for firms by leveraging their relevant core capability differentials has been a central tenet of recent theories

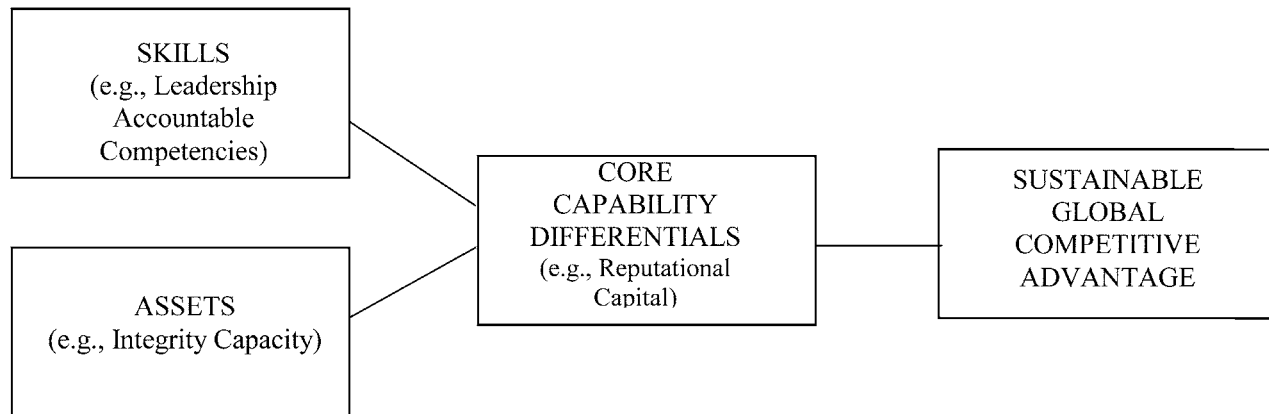


Figure 1. The strategic resource model of sustainable global competitive advantage.

of strategic management (Hall, 1993). While short-term competitive advantage is obtained by appealing to customers in targeted external markets, long-term sustainable competitive advantage is the result of exploiting an enduring core of relevant capability differentials cultivated by responsible management of tangible and intangible internal skills and assets (Barney, 1995).

As Figure 1 indicates, core capability differentials are based on skills (what the company can do) and assets (what the company has). Skills provide functional differential that is due to cumulative know-how and experience (e.g., leaders' and employees' know-how) and cultural differential based on the collective leadership aptitudes of the organization (e.g., the collective ability to manage TMT and organizational learning) (Grant, 1996). In essence, the kind and degree of coordinated and leveraged skills and assets a firm has will determine its core capability differentials and its ultimate sustainable global competitive advantage (Hitt et al., 2001).

Corporate assets, in turn, are both tangible and intangible; traditional strategic managers emphasized the value of tangible assets (e.g., plant, equipment, and land) and leveraged them to maximize shareholder wealth that was documented in the balance sheet valuation. Any premium over the balance sheet valuation was relatively unimportant and interpreted as a marginal reflection of the intangible assets which could not be assigned a specific balance sheet

value, but which were held to be a source of future earning capabilities.

Intangible assets, however, are assuming increasingly competitive significance in rapidly changing domestic and global markets (Collins and Montgomery, 1995; Hall, 1993). As the speed of comparable tangible asset acquisition accelerates and the pace of imitation quickens, corporations that want to sustain distinctive global competitive advantages need to protect, exploit and enhance their unique intangible assets (Teece et al., 1997; Sveiby, 1997).

Sustainable global competitive advantage occurs when a firm implements a value-creating strategy which other firms are unable to imitate (Hitt et al., 2001). For example, a firm with superior business leadership skills in enhancing integrity capacity increases its reputation capital with multiple stakeholders and positions itself for competitive advantage relative to firms without comparable leadership performance (Fombrun, 1996). Integrity capacity extends the work of Litz (1996) who argued that firms that could perceive stakeholder interdependence, demonstrate ethical awareness, and respond effectively to moral issue management put themselves at a competitive advantage over other firms without those internal resources, by providing a more comprehensive list of ethics capacities that is coordinated with other organizational improvement processes. The neglect of company integrity capacity as an intangible asset is particularly alarming since its resultant increase in reputational capital has been

established as a critical competitive component of global firms (Fombrun, 1996). Due to a pre-occupation with managing tangible assets for short term profits and unfamiliarity with how to enhance integrity capacity to contribute to the core capability differential of reputational capital, many business leaders have failed to capitalize on this key intangible asset, have injured multiple stakeholders, and are now being held accountable (Korten, 1999; LeClair et al., 1998).

Furthermore, the context of globalization has exacerbated the adverse impacts of the neglect of integrity capacity, challenging business leaders to design and use more sophisticated theoretical tools for handling multiple, simultaneous dimensions of business moral issues (Yergin and Stanislaw, 1998; Petrick, 1998). The need to improve skills in enhancing integrity capacity through more sophisticated ethical tools is prompted by a number of trends, including: (1) rising workplace violence and global terrorism as impulsive responses to settling business moral conflicts (O'Leary-Kelly et al., 1996; White, 1998); (2) polarized stagnation of corporate decision processes in collective settings due to inability to compromise or resolve unsettled value conflicts (Betz, 1998; Pojman, 2000); (3) the prevalence of wasted, idle and scarce resources that reduce effective global cooperation and competition (Piasecki et al., 1999); (4) disparity of leader and employee perceptions of organizational ethics and the relative lack of coordinated formal and informal processes to embed ethics in strategic decision making (Weaver et al., 1999b; Trevino et al., 2000); and (5) neglect of recent organizational research which empirically demonstrates that leaders with behavioral complexity skills produce better firm performance (Cameron and Quinn, 1999; Dennison et al., 1995).

While developing all four dimensions of integrity capacity can address these adverse trends (Petrick and Quinn, 2000), the cultivation of the dimension of judgment integrity by business leaders is central to reversing them.

Judgment integrity and leadership accountability for handling the three complexities

Business leaders can attempt to evade full moral accountability by compartmentalizing and fragmenting their perception of the microeconomic world of organizational management and their assumptions about the macroeconomic world of global capitalism. One way to address this evasion is to provide an integrated model of judgment integrity that literally integrates what was previously fragmented so that balanced, principled judgments can be made in addressing the three complexities: behavioral, moral and hypothesized economic complexities (Brunsson, 1989; Solomon, 1992). It is, after all, good business judgment in the face of uncertainty and complexity that distinguishes the excellent from the average or poor business leader, and for that reason, judgment integrity is at the core of integrity capacity and business leadership accountability.

Judgment integrity is the balanced and inclusive use of key ethics theories and their cognate theoretical resources in the analysis and resolution of individual and/or collective moral issues (Petrick and Scherer, 2000). Among the key cognate theoretical resources for understanding the broader scope of business leadership accountability are management, economics and ethics theories. The way leaders conceive of the macroeconomic context of business and manage the microeconomic activity of firms implicitly aligns them with one or more key ethics theories that shape their judgment integrity – for which they are held ultimately accountable. Business judgment integrity can be hypothetically formulated as a conscious balancing of competing management, economics and ethics theories in the formation of business policies and leadership practices (Petrick, 1999), as indicated in Figure 2.

With respect to microeconomic management theory in Figure 2, excellent managerial decision making entails the ability to handle *behavioral complexity*, i.e., play multiple, even competing, organizational roles in a highly balanced and complementary way to effectively achieve goals

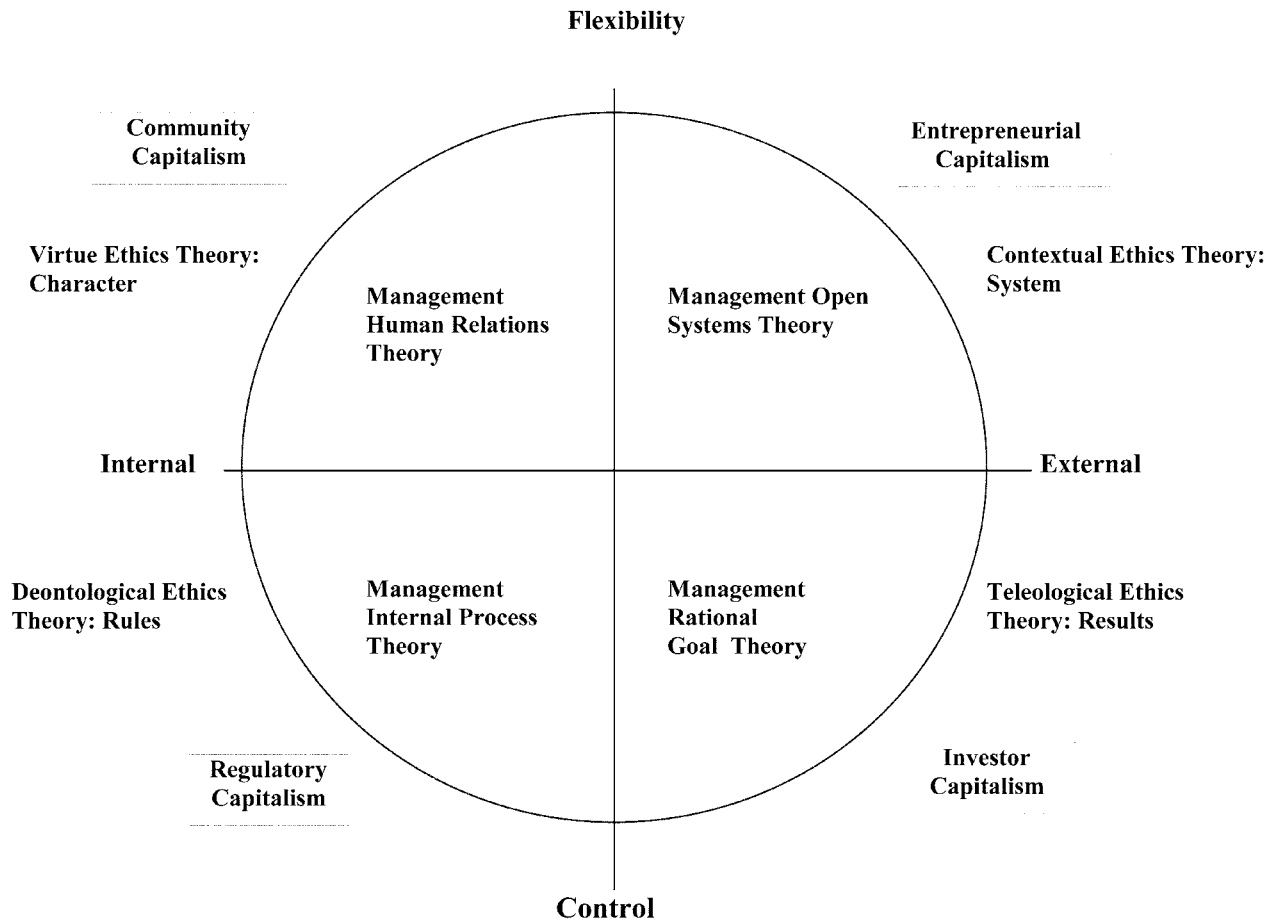


Figure 2. Judgment integrity: balanced economics, management and ethics theories.

without wasting resources and demonstrate external adaptability while cultivating stakeholder commitment (Hoojiberg and Quinn, 1992; Quinn et al., 1992; Hart and Quinn, 1993). These role playing competencies are best categorized as falling within four types of micro-economic management theories: rational goal theory, internal process theory, human relations theory and open systems theory.

The rational goal theory, which Frederick Taylor introduced at the beginning of the 20th century, focuses on external control and stresses the director and producer role responsibilities of setting goals, taking initiative, increasing productivity and maximizing output by emphasizing goal clarification, rational analysis and action taking. The internal process theory, which Max Weber and Henri Fayol developed in the first

quarter of the 20th century, focuses on internal control and stresses the monitor and coordinator role responsibilities of information management, documentation control, efficient processing, and consolidated continuity by emphasizing process measurement, smooth functioning of organizational operations and bureaucratic order. The human relations theory, which was made famous by Elton Mayo and the Hawthorne studies in the second quarter of the 20th century, focuses on internal flexibility and the facilitator and mentor role responsibilities of fostering openness, participation, team morale building and commitment by emphasizing involvement, humane conflict resolution, and consensus building. Finally, the open systems theory, which was advocated by Paul Lawrence and Jay Lorsch in the third quarter of the 20th century, focuses on

external flexibility and stresses the innovator and broker role responsibilities of cultivating organizational learning capabilities and developing the competitive power of continual creativity, political adaptation, and negotiated external resource acquisition by emphasizing external trend scanning, creative system change and development, and negotiated contractual agreements and networking (Belasen, 2000).

Overemphasis or underemphasis on any one of these microeconomic theories in management practice will distort business judgment and prevent leaders from arriving at balanced judgments that adequately address behavioral complexity. Overemphasis, for example, on the director and producer roles – in line with the rational goal theory – will offend individuals and destroy cohesion. Overemphasis on the coordinator and monitor roles – in line with internal process theory – stifles progress and neglects possibilities. Overemphasis on the facilitator and mentor roles – in line with human relations theory – slows production and abdicates decision making authority. Finally, overemphasis on broker and innovator roles – in line with open systems theory – disrupts continuity and wastes energy. Underemphasis on the respective microeconomic management theories leads to organizational ineffectiveness, inefficiency, irresponsibility and inertia (Petrick and Quinn, 1997).

In addition, as indicated in Figure 2, the way leaders manage implicitly commits them to certain ethics theories, and just as distorted managerial judgments produce poor results in handling behavioral complexity so also do distorted ethical judgments produce poor results in handling moral complexity (Petrick and Quinn, 2000; Paine, 1997, 1994). *Moral complexity* is the cognitive and operational ability to inclusively balance and act in the face of multiple competing expectations with regard to results, rules, character and context. Ethics theories can also be organized into four categories that implicitly parallel the microeconomic management categories: teleological ethics theories, deontological ethics theories, virtue ethics theories, and contextual ethics theories.

To clarify the connections between microeconomic management theories and ethics

theories, the following examples are considered. First, rational goal, “bottom line” corporate leaders who repeatedly use results as the exclusive performance standard logically endorse and tacitly choose to accord outcome-oriented ethics theories (teleological ethics) preeminence over other moral values. Rational goal leaders, who have strong role competencies in directing and producing, are naturally predisposed toward teleological ethics in their daily practice; they routinely focus on economic and moral results. Second, internal process leaders, who exhibit strong role competencies in monitoring and coordinating, implicitly subscribe to duty-oriented ethics theories (deontological ethics) in their daily practice. These “by the book” corporate leaders, who repeatedly use compliance with internal policies as the exclusive performance standard, tacitly endorse and logically choose to accord deontological ethics priority over other moral values; they routinely focus on adhering to business and moral rules. Third, human relations leaders, who have strong role competencies in facilitating and mentoring, implicitly subscribe to a character-oriented ethics theories (virtue ethics) in daily practice. These “true grit” corporate leaders, who focus on the “right stuff in persons” and repeatedly use virtuous character as the exclusive performance standard, are tacitly endorsing and logically choosing to accord virtue ethics theory preeminence over other moral values; they routinely focus on the human and moral impacts on workplace harmony. Finally, open systems leaders, who excel in innovating and brokering for resources, implicitly subscribe to system improvement ethics theories (contextual ethics) in daily practice. These “change agent” corporate leaders, who use continuous process improvements within the organization and networked partnerships outside the organization as the exclusive performance standards, are tacitly endorsing and logically choosing to accord contextual ethics priority over other moral values; they routinely focus on the process and moral impact of intra-organizational work system improvement and extra-organizational partnerships that control corruption.

For business leaders and their firms, exhibiting

judgment integrity means being held accountable for achieving good results (outcome-oriented teleological ethics), by following the right rules (duty-oriented deontological ethics), while strengthening the motivation for excellence (character-oriented virtue ethics), and building an ethically supportive environment within and outside the organization (system improvement-oriented contextual ethics). Although all four theories of ethics (teleological, deontological, virtues, and contextual) can be isolated, the main point is that all four theories are necessary to fully analyze and resolve moral conflicts.

For example, often traditional ethicists act as if only teleological, deontological and virtue ethics theories matter. They treat the contextual world (within and outside of organizations) as a marginal moral externality, mere background to the foreground of human choice, just as classical economists regard social and environmental damage as mere economic externalities to be borne by the public. The content of moral discourse with respect to results, rules and character is focused on without considering the impact of the environmental context that shapes and influences moral discourse. The authors, however, regard both content and context as essential components of moral discourse and judgment, i.e., moral choice takes place within a set of circumstances that “objects” even when results, rules and character are all in agreement. Business leaders that misread or ignore the context of moral choice are held accountable for inappropriate and unrealistic moral choices that harm themselves and others, e.g., greedily pursuing short term profits by clear-cutting virgin forests, while remaining indifferent to the contextual impact on the habitats of indigenous peoples, plants and animals (Dunphy et al., 2000).

Business leaders that overemphasize or underemphasize good results, right means, virtuous character and/or morally supportive contexts when facing morally complex problems incur the same adverse consequences as managers that cannot handle behavioral complexity, i.e., offended individuals, neglected opportunities, eroded trust and corrupt environments.

In addition, as indicated in Figure 2, the authors hypothesize that judgment integrity is

shaped by the balanced use of macroeconomic theories to resolve economic complexity (Petrick, 1999). *Economic complexity* is the cognitive and operational capability to institutionally meet human wants and generate wealth in the face of competing expectations regarding financial returns, regulatory compliance and social welfare, managerial discretion and entrepreneurial innovation. Subsequent to the end of the Cold War, economics theories warrant special attention because business leaders who assume a narrow and homogeneous view of capitalism have used it to evade moral accountability for turning the global village into a global pillage (Korten, 1999, 1995). For example, the ability of business leaders of transnational corporations to relocate their facilities around the world in effect makes all workers, communities and countries competitors for the corporate leaders’ favors. The consequence is a race to the moral bottom in which wages, social conditions and natural habitats are economically determined by the most desperate. The assumed economic inevitability of this scenario is used by business leaders to avoid accountability for the kind of economic capitalism they choose to espouse and live by. The authors propose four major types of viable macroeconomic capitalist theories: *investor capitalism*, *regulatory capitalism*, *community capitalism*, and *entrepreneurial capitalism*. They hypothesize that these theories are cognately related to parallel microeconomic management and ethics theories as depicted in Figure 2.

Investor capitalism, sometimes referred to as “cowboy capitalism” or classical economic liberalism, emphasizes the preeminence of rapid, legal wealth accumulation by prioritizing the short-term financial interests of individual and institutional investors, e.g., pension funds, bank trusts, mutual funds (Useem, 1996). This approach demands greater accountability and networks of interaction between executives who run a company and their institutional owners. In their strongest form, these networks are demonstrated through “relational investing,” whereby major institutional investors acquire large stakes in a company and demand to work closely with top management. In weaker form, they can be seen in the routinized information

exchanges between mutual fund officials and corporate executives. In confrontational form, they are obvious in episodic efforts by institutional investors to win proxy fights, force mergers and acquisitions, engineer corporate restructuring, or oust unresponsive managers. The growing concentration of institutional ownership and stronger expression of institutional voice within shareholder ranks is demanding the highest and best use of "impatient" investment capital in short time horizons. The emphasis of investor capitalism is on short-term financial performance using existing products/services rather than long term results factoring in R&D costs/risks of new products/services. Investor capitalism is hypothesized to have a cognate affinity with rational goal management theory and teleological ethics theory in that all focus on outcomes as key determinants of their economic, management and moral judgments respectively.

Regulatory capitalism, Kantian or otherwise, focuses on important rules and regulations, without which there could be no global even playing field for market transactions (Viotor, 1996). Regulatory capitalism has been emphasized when inherent market failures occur that adversely affect market and public interests. Since imperfect information (e.g., addressed by labeling mandates for consumer goods), monopolies (e.g., addressed by anti-trust laws), negative externality costs (e.g., addressed by environmental pollution laws and regulations) and inadequate provision of public goods through the pricing system (e.g., addressed by taxation to ensure the public good of national defense) are regarded as symptoms of inherent market defects, government regulation corrects those defects. Some theorists consider these defects to be so serious that the free market is regarded as inherently incapable of meeting the needs of all segments of society, so they have adopted a more collectivist approach to economics, embodied in either communism or socialism. While both communism (i.e., espousing totalitarianism and violent revolution) and socialism (i.e., espousing democracy and peaceful change) have been discredited as viable operating philosophies for widespread economic growth and social control, the

problems that generated their appeal – poverty, oppression, economic and political inequality – remain. However, the over-regulated, collectivist, command economies generated their own problems, e.g., failure to adequately coordinate products/services with rapidly changing socio-economic needs, failure to generate high quality, globally competitive products/services due to outlawed competition from superior providers, and dysfunctional performance incentives that rewarded incompetent loyalty over competent productivity.

The net result is that the extent and nature of economic regulation is debatable but some form of regulatory capitalism appears to be globally, regionally, nationally and locally necessary and desirable. The basic norms necessary for the efficient functioning of capitalism, such as keeping promises, honoring contracts, telling the truth, freedom of choice, the existence of a reliable legal infrastructure to enforce agreements, and respect for the lives and property of those involved in economic transactions, are endorsed by and protected by regulatory capitalism. Unregulated or over-regulated capitalism, however, can lead to widespread extortion, gross bribery, fraud, violations of human and economic rights, abridgements of social contract agreements, neglect of transnational corporate, professional, and industrial codes, stifled economic innovation and job growth, and other agency and opportunity costs of economic transactions that reduce the efficiency of the market. In effect, regulatory capitalism is hypothesized to have a cognate affinity with internal process management theory and deontological ethics theory in that all focus on following rules and adhering to a standard as key determinants in their economic, management and moral judgments respectively.

Community capitalism emphasizes the role of managerial discretion in going beyond short term financial interests of investors to become corporate statespersons for ecological and social responsibility (Danley, 1998; Taub, 1988; Lehman, 1999; Constanza, 1992). With the separation of corporate ownership and control, corporations are not necessarily driven by the short-term interests of owner/investors to increase profits but by the discretionary power

of educated executives to improve the synergism between the natural and human communities within their scope of influence. In addition to meeting economic profitability and legal compliance goals, community capitalists are expected to act as solid corporate citizens through fair labor policies for employees, through philanthropic contributions to community needs, and through ecologically friendly practices that respect nature. Natural capitalism and sustainability are hallmarks of community capitalism and can be measured in terms of social and environmental accounting (Lehman, 1999; Hawkins et al., 1999). Community capitalists are expected to be building character as corporate statespersons through facilitating committed productivity in enhanced internal work communities and by being responsive to external social and environmental responsibility demands in public policy contexts. In effect, community capitalism is hypothesized to have a cognate affinity with human relations management theory and virtue ethics theory in that all focus on developing human belongingness and character as key determinants in their economic, management and moral judgments respectively.

Entrepreneurial capitalism focuses on generating innovation and leading change to stimulate and accelerate economic transformation in the marketplace (Romer, 1993). Economic progress today is stimulated by the inventive activity of a critical mass of entrepreneurs, working occasionally alone, but more often in partnerships of collective creativity. The R&D budgets of industries and nations are indicators of their willingness to assume macroeconomic risks for the successful introduction of new products/services. The most favorable macroeconomic environment for entrepreneurial capitalism in technological innovation, for example, is to have a majority of medium-sized firms bounded on one side by a horde of small technology-oriented firms bubbling over with bright new ideas, and on the other side, by a few larger companies with the resources to undertake exceptionally ambitious R&D developments for a wide range of buyers. Venture capital is drawn toward and rewards successful entrepreneurial capitalism.

In turn, venturing activities and technological progress in entrepreneurial capitalism are fostered by a variety of factors: market structures, government policies concerning markets, availability of tax incentives, technological opportunity, demanding consumers and organizational structural congruence (Yergin and Stanislaw, 1998). Favorable size and composition of markets, pro-competition government policies, tax incentives to encourage R&D investment, technological market openness to product/service changes, and organizational configurations and processes that facilitate creativity all enhance entrepreneurial capitalism. At the macroeconomic level, those industries and nations that engage in and support constant economic creativity will set the competitive pace for global economic progress. Entrepreneurial capitalism is hypothesized to have a cognate affinity with open systems management theory and system development ethics theory in that all focus on continual improvement as the key determinant of their economic, management and moral judgments respectively.

In effect, judgment integrity is shaped by the degree of behavioral, moral and hypothesized economic complexity that business leaders in industries and nations can handle in a balanced manner. Overemphasis or underemphasis of any of the economics and ethics theories risks the distortion of collective judgment. Yet, it is precisely the overemphasis on investor capitalism that is depleting natural, human, social and institutional resources that ensure global sustainability (Korten, 1996; Petrick et al., 1999; Wenz, 2000). Natural environmental degradation, child and migrant labor exploitation, family and community dissolution, and weakened, "privatized" legal/regulatory infrastructures to support higher short-term profits for global institutional investors has become the mantra of "free trade" globalization (Yergin and Stanislaw, 1998). Relying on a single economics theory, however, while consistent, is not developing the balanced collective judgment integrity for which business leaders are increasingly being held accountable, e.g., WTO riots in Seattle against business leader attempts to avoid democratic accountability in determining the rules of global commerce, use of the Alien Tort Claims Act (ATCA) by Burmese workers to

sue Unocal business leaders for complicity in slave labor in their country, 30,000 Ecuadoreans filing a lawsuit against Texaco business leaders in a U.S. district court for environmental and genocidal danger to tribes and animals in the Amazon. And the adverse impacts of distorted judgment integrity with respect to behavioral, moral and economic complexity continue to diminish the environmental context within which business must function and erode the aggregate strategic asset of integrity capacity (Dunphy and Griffiths, 1998).

Leadership practices for enhancing integrity capacity as a strategic asset

If business leaders cannot afford to neglect integrity capacity as a strategic asset, the following two leadership practices are recommended for executive consideration.

Practice I: Provide business leadership education to increase awareness of accountability for protecting organizational integrity capacity as a strategic asset and of accountability for developing judgment integrity that arrives at balanced moral decisions at the microeconomic operational level and the macroeconomic strategic level. The more aware business leaders and other stakeholders are of the nature and importance of integrity capacity as a strategic asset, the more likely it is that they can cooperate in nurturing it and avoid the adverse effects of integrity capacity neglect. In addition, by gaining competence in the application of the judgment integrity format to internal business policy decisions and external strategic partnership decisions, business leaders can hold themselves accountable for principled, balanced decisions in internal and external work settings.

Practice II: Expand the scope of business leader accountability to include the regular implementation of social and environmental accounting and auditing mechanisms along with transparent public disclosure of the results. The social and environmental accounting literature (SEAL) is now sufficiently well developed in Great Britain, continental Europe and Australasia to generate auditing and reporting mechanisms that are responsive to changing patterns of civil accountability, e.g.,

The Global Reporting Initiative and the Earth Charter (Zadek, 1998; Zadek et al., 1997). The Shell Report 2000, for example, which comprehensively documents the Royal Dutch/Shell Group of Companies' economic, social and environmental performance, acknowledging areas for environmental improvement in Shell holdings in Nigeria, is publicly available online. The transparency and responsiveness of this process of deepening stakeholder relationships around core non-financial as well as financial values enhances the corporate credibility and reputational capital of the firm. It is just this broader sense of business leadership accountability that is entailed in developing integrity capacity as a strategic asset of the firm.

Conclusion

The authors have defined and treated integrity capacity as an intangible strategic asset of an organization for which business leaders are challenged to be accountable. Enhancing integrity capacity can contribute to the global sustainable competitive advantage of firms, whereas its current neglect has dysfunctional consequences. To address this neglect issue, the authors identify four dimensions of integrity capacity (process, judgment, development, and system), and focus on the cultivation of judgment integrity to inclusively handle behavioral, moral and hypothesized economic complexities as key dimensions of integrity capacity. Finally, the authors have recommended two leadership practices to build competence in business leaders to enhance integrity capacity as a strategic organizational asset.

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