

The Integrity Capacity Construct and Moral Progress in Business

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ABSTRACT. The authors propose the integrity capacity construct with its four dimensions (process, judgment, development and system dimensions) as a framework for analyzing and resolving behavioral, moral and legal complexity in business ethics' issues at the individual and collective levels. They claim that moral progress in business comes about through the increase in stakeholders who regularly handle moral complexity by demonstrating process, judgment, developmental and system integrity capacity domestically and globally.

KEYWORDS: developmental integrity capacity, integrity capacity, judgment integrity capacity, moral progress, process integrity capacity, system integrity capacity, reputational capital

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Introduction

This article develops four conceptual dimensions of the integrity capacity construct as a framework for analyzing and resolving behavioral, moral and legal complexity in business ethics' issues in order to promote moral progress in business (Petrick and Quinn, 1997). A focus on collective integrity capacity is an outgrowth of the tradition of integrity literature in philosophy and psychology (Erikson, 1950; Taylor, 1985; McFall, 1987; Srivastva, 1988; Walters, 1988; Halfon, 1989; Calhoun, 1995). The tradition of integrity literature, however, has gained wider acceptance and moved from the domestic individual level to the global collective level (Benjamin, 1990; Solomon, 1992; Carter, 1996; Paine, 1997; Petrick and Quinn, 1997; LeClair, Ferrell, and Fraedrich, 1998; Westra, 1998).

The need to enhance skills in handling collective moral complexity 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 moral conflicts (O'Leary-Kelly, Griffin and Glew, 1996; Bok, 1998; White, 1998); (2) polarized stagnation of decision processes in collective settings due to inability to compromise or resolve unsettled value conflicts (May, 1996; Betz, 1998; Goodstein, 1998; Gutmann and Thompson, 1996); (3) the prevalence of wasted, idle and scarce resources that reduce effective global cooperation and competition (McNair and Vangermeersch, 1998; Beder, 1997; Blackstone, 1989); and (4) recent organizational research which demonstrates that managers with behavioral complexity skills produce better



firm performance (Cameron and Quinn, 1999; Dennison, Hooijberg and Quinn, 1995).

Given the need to address collective moral complexity in a manner that supplements existing business ethics literature, the authors propose the integrity capacity construct as an inclusive, innovative way to conceptualize, assess and improve individual and collective resources that implement moral progress in business. *Moral progress* is interpreted by the authors to consist of the increase in stakeholders who individually and collectively demonstrate process, judgment, developmental and system dimensions of integrity capacity domestically and globally. The authors proceed by clarifying the meaning of integrity capacity, discuss its four dimensions (process, judgment, development and system), and briefly summarize its impact on moral progress in business.

Integrity and the integrity capacity construct

Integrity can be defined as the quality of moral self-governance at the individual and collective levels (Werhane and Freeman, 1997). It is derived from the Latin, meaning wholeness, completeness, conscientious coherence, or committed responsibility. It has been linked with one or more of the following ordinary language characteristics in both philosophical and psychological literature (Paine, 1997; Carter, 1996; Erikson, 1950): (1) moral conscientiousness and discernment (ongoing reflective concern for distinguishing what is right from what is wrong and a sense of trustworthy loyalty to honestly examined beliefs); (2) moral resolution and public accountability (balanced moral judgments that resolve dilemmas after ongoing comprehensive analysis for which individuals and collectives hold themselves responsible and openly, publicly prize as justifications of their conduct); (3) moral commitment and character (individuals and collectives that steadfastly adhere to anchoring principles and are ready to act ethically when confronted with adversity or temptation); and (4) moral coherence and authenticity (coherence among judgments, beliefs, expressions, commit-

ments, and especially word and deed so that the harmony between reasoned principles and daily practice conveys the sincerity with which convictions are held). While traditional ordinary language often limits integrity to simple, strict fidelity to individual principles, a deeper current from that tradition underlies current attention to the moral complexity inherent in the respectful regard and inclusive responsiveness necessary to sustain integrity capacity in diverse communities (Hampshire, 1983, 1989; Williams, 1985; Nagel, 1979; Fernandez and Barr, 1993; Benjamin, 1990; Kahane, 1995).

The integrity capacity construct builds upon the ordinary language distinctions and focuses on four key dimensions: process, judgment, development and system. *Integrity capacity* can be defined as 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. Individuals and collectives with high integrity capacity are likely to exhibit a coherent unity of purpose and action in the face of moral complexity rather than succumb to bureaucratic inertia or simplistic, irresponsible decision making (Jackall, 1988). The context of globalization has exacerbated behavioral, moral and legal complexity, challenging leaders to design and use more sophisticated theoretical tools for handling multiple, simultaneous dimensions of business moral issues (Srivastva, 1988; Taylor, 1985; Petrick and Quinn, 1997).

Process integrity capacity

The four dimensions of integrity capacity that promote moral progress are: process integrity capacity, judgment integrity capacity, developmental integrity capacity, and system integrity capacity. Each can be qualitatively and quantitatively assessed to arrive at an "IC Profile" that pinpoints areas of strength and further improvement.

Process integrity capacity is the alignment of individual and collective moral awareness,

deliberation, character and conduct on a sustained basis so that reputation becomes a major intangible asset to be carefully nurtured and protected (Rest, 1986). The need to address lapses in process integrity capacity is manifest by the routine fragmentation of business moral attention and behavior that arouses stakeholder criticism about the moral hypocrisy of many current business practices, e.g., multinational corporations that tout their public relations images as responsible corporate citizens while engaging in unsustainable development practices that pollute the natural environment, destroy local markets and exploit indigenous workers (Korten, 1996; Rivkin, 1998). Global competition has aggravated this tendency for arrested process integrity capacity by overemphasizing economic factors to the exclusion of ethical concerns (Korten, 1999).

Moral awareness, the first component of process integrity, is the capacity to perceive and be sensitive to relevant ethical issues that deserve consideration in making choices that will have significant impact on others. Moral awareness consists of ethics perception and ethics sensitivity. The former is the collective capacity to “see,” recognize or discover the ethical features of a situation; the latter is the collective capacity to value the relative importance of the ethical features of a situation. The extent of moral awareness among all internal and external business stakeholders will determine the moral listening and voice capacity of a firm. Some organizations do not plan, organize, lead or control well because they are inadequately receptive to the moral input of multiple stakeholders; in effect, they become morally blind, deaf and mute, thereby diminishing their capacity for ethical awareness and eventual moral progress.

Moral deliberation, the second component of process integrity, is the capacity to engage in the analytic process of critical appraisal of causal factors and recognized moral options to arrive at a reasonable decision/resolution/policy that provides a standard for future determinations (Boatright, 1997; Velasquez, 1998). It consists of ethics analysis and ethics resolution. Ethics analysis is the rational step of moral argumentation designed to identify, interpret and weigh the key causes of moral problems and the key

resources for ethical problem resolution. Ethics resolution is the rational step of making a firm, justified, publicly announced decision that incorporates and brings closure to all the factors raised in ethics analysis. Businesses that poorly analyze and resolve moral conflicts ignore or trivialize aspects of complex moral issues resulting in inadequate diagnoses and inadequate remedies for problems, thereby diminishing their capacity for balanced moral deliberation and future moral progress.

Moral character, the third component of process integrity, is the individual and collective capacity to be ready to act ethically. Individuals and businesses with strong character expand their capacity by the exercise of virtues. Intellectual virtues, e.g., understanding, imagination, wisdom, constitute the cognitive readiness to act ethically. The volitional readiness to act ethically is strengthened by the exercise of the following sets of virtues: moral virtues, e.g., courage, honesty, and justice; social virtues, e.g., trustworthiness, cheerful cooperation, generosity; emotional virtues, e.g., sincerity, caring, and loving respect; and political virtues, e.g., fairness, civility and good citizenship. Businesses with weak characters lack a clearly envisioned future and the collective will to sustain momentum for moral progress, thereby diminishing their capacity for readiness to act ethically and advance moral progress (Wilkins, 1989).

Moral conduct, the fourth component of process integrity, is the individual and collective carrying out of justifiable actions on a sustained basis. It consists of practices that demonstrate responsible responsiveness and sustainable development. Responsible responsiveness is the voluntary ownership of intentional conduct for which anyone or any firm can be held morally accountable. Sustainable development is the intentional adoption of a set of morally justifiable economic practices that preserves natural ecology, indigenous peoples, and intergenerational equity. Firms that exhibit ethical conduct develop a reputation for dependability, “walking the talk” and alignment of moral rhetoric and reality. Firms that do not act ethically are deprived of opportunities for sustained prosperity because their capacity for “moral follow-

through” and trustworthy reciprocity is suspect, thereby diminishing their credibility to act upon promised commitments in the future and promote moral progress.

These four parts of process integrity capacity incorporate the four characteristics of integrity found in ordinary language and cited at the beginning of this paper. The philosophical and psychological processes to achieve and maintain integrity involve conscientiousness and discernment in moral awareness, resolution and accountability in moral deliberation, commitment and readiness of moral character to act, and coherence and authenticity in moral conduct. The more individuals and groups exhibit these moral processes, the stronger the aggregate business process integrity capacity will become and the greater the likelihood that moral progress will be advanced.

Judgment integrity capacity

Another dimension of integrity capacity, however, is judgment integrity, alluded to in the context of process integrity, but which requires more detailed analysis with respect to the special kind and degree of theoretical balance needed to address moral and legal complexity at the collective decision making level. *Judgment integrity capacity* is the balanced use of key ethics theories and their cognate theoretical resources in the analysis and resolution of individual and/or collective moral issues. Among the cognate theoretical resources for business ethics decision making are management and legal theories. The way people manage and interpret legal approaches to moral conflicts implicitly aligns them with one or more key ethics theories that influence their judgment integrity capacity (Petrick and Quinn, 1997). Business judgment integrity is formed by the conscious balancing of management, ethics and legal theories in the formation of business policies and practices (Frederick, 1995; Nielsen, 1996).

With respect to management theory, excellent managerial decision making entails the ability to handle behavioral complexity by playing multiple, even competing, roles in a

highly balanced and complementary way (Hoojiberg and Quinn, 1992; Quinn, Spreitzer and Hart, 1992; Hart and Quinn, 1993). These role playing competencies are best categorized as falling within four types of 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 (Taylor, 1911). 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 (Weber, 1921). 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, consensus building (Mayo, 1993). 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 (Lawrence and Lorsch, 1967).

Overemphasis or underemphasis on any one of these theories in management practice will distort managerial judgment and prevent business managers from arriving at balanced judgments

that adequately address behavioral complexity (Sejersted, 1996). 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. In addition, the way people 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, 1997). The inadequate handling of moral complexity retards moral progress and may even stimulate moral regression.

Ethics theories can also be organized into four categories that implicitly parallel the management categories: teleological ethics theories, deontological ethics theories, virtue ethics theories, and system development ethics theories. To clarify the connections between management theories and ethics theories, the following examples are considered. First, rational goal, “bottom line” managers 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 managers, 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 (Primeaux and Stieber, 1997). Second, internal process managers, 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” managers, 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 managers, 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” managers, 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 managers, who excel in innovating and brokering for resources, implicitly subscribe to process improvement ethics theories (system development ethics) in daily practice. These “change agent” managers, who use continuous process improvement as the exclusive performance standard, are tacitly endorsing and logically choosing to accord system development ethics priority over other moral values; they routinely focus on the process and moral impact of work system improvement.

For businesses, exhibiting judgment integrity capacity means achieving good consequences or ends (outcome-oriented teleological ethics), by adhering to standards of right conduct (duty-oriented deontological ethics), while habitually being motivated by proper intentions and developing virtuous character traits (character-oriented virtue ethics), in an ethically supportive, holistic context (process improvement-oriented system development ethics) (Trevino and Youngblood, 1990; Cohen, 1993; Trevino and Nelson, 1995). Although all four theories of ethics (teleological, deontological, virtues, and system development) can be isolated, the main point is that all four theories are necessary to understand moral phenomena fully, to make balanced ethical judgments, and to demonstrate balanced judgment integrity capacity. Just as handling behavioral complexity requires the balanced use of all four management theories by expert managers, handling moral complexity requires the balanced use of all four ethics theories by business decision makers if business judgment integrity capacity is to be developed. Business managers 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 effect, business judgment integrity capacity is shaped by the degree of behavioral and moral complexity that firm managers can handle in a balanced manner and in a way that appropriately incorporates management and ethics theories in decision making.

In addition, judgment integrity capacity is determined by the balanced use of legal theories in handling moral complexity that overlaps legal parameters. Laws can aid business managers in setting moral norms for economic transactions by enforcing contracts, protecting property rights, preventing fraud and conflicts of interest, and establishing boundaries for acceptable business practice. Law is an important component in sustaining business judgment integrity capacity because it provides a concrete, public way to achieve feasible moral ideals and prevents collective moral regression, e.g., political and economic corruption (Sigler and Murphy, 1988). It is often referred to as the external forum, e.g., court of law that can follow or precede the internal forum, e.g., the court of conscience (Crawford and Quinn, 1991). Businesses that adhere to public regulation and legal compliance as standards of conduct are comparatively more morally developed than those that are fear-ridden or advantage-driven or those that have one set of rules for inside members and another set for outside strangers (Sigler and Murphy, 1988).

Businesses are particularly interested in classifying legal and regulatory expectations in order to reduce arbitrariness and uncertainty. Domestic and international law, therefore, provide practical guidance on the acceptable rules of business activity, so that a level playing field can support rather than undermine free market transactions. It is for this reason, if for no other, that prudent business organizations work to develop just background institutions in all global sociopolitical environments (De George, 1993). The range of legal institutions and paralegal nongovernmental organizations (NGOs) that are “drawing the line”

on acceptable global business practices include the following: the United Nations (UN); the International Court of Justice (ICJ); the International Monetary Fund (IMF); the International Bank for Reconstruction and Development (IBRD); the International Development Association (IDA); the Court of International Trade (CIT); the International Trade Commission (ITC); and the Organization for Economic Cooperation and Development (OECD).

The dynamic interrelationship of law and ethics is such that what is legally permissible today but ethically questionable, may well become legally proscribed tomorrow (Paine, 1997). Business judgment integrity capacity, therefore, requires that business managers not only be aware of their management and ethics theory assumptions but also their legal theory assumptions.

Different legal theories emphasize different moral traditions, which in turn, are implicitly linked with different managerial responsibilities that ultimately determine judgment integrity capacity (Petrick and Quinn, 1997). The way business managers incorporate legal theories into their decision making patterns either enhances or detracts from business judgment integrity capacity. The capacity of managers to balance legal traditions, rather than narrowly espouse one tradition, is crucial in fostering balanced analysis and resolution of complex moral and legal issues. Hostile legal confrontations within and between businesses based on distorted legal judgments may produce volatile courtroom theatrics and costly litigation but they do not strengthen work communities nor do they promote a shared search for the optimal resolution of moral conflicts in business.

Just as the ethical business manager must be able to balance and use all four ethics theories to demonstrate judgment capacity, the legally responsible manager must be able to balance and use four parallel legal theories to do the same. Managers who rely exclusively on their natural affinity for one legal perspective develop “legal blindspots” and rush to judgment with an inadequate appreciation for moral and legal complexity.

The four major types of legal theories related to parallel management and ethics ethics are: positive law, natural law, civic responsibility and social reform legal theories. Positive law legal theories hold that law is the received body of authoritative commands motivated by and resulting in external control that courts are to enforce, not create, e.g., according to U.S. constitutional law, Congress has the power to impose taxes on the estates of deceased individuals, even if it excessively deprives his/her offspring of the natural inheritance of real property, in order that wealth may be transferred in an orderly manner (Shiner, 1992). The objective of positive law is to maintain external order through preserving legal precedents, *stare decisis* and social continuity.

The positive law focus on external order through either utilitarian results or economic outcomes implicitly endorses teleological ethics. If this legal theory is overemphasized by managers, they will be regarded as callously ignoring the rights and needs of particular human communities, fair distributions of benefits and burdens and the intrinsic value of employees. Authoritative decisions that regulate and maintain current external order are taken very seriously in this tradition, but if overemphasized they will retard moral progress.

Natural law legal theories hold that rational dictates of conscience regarding universal common goods exist, are based on what is immutably constitutive of human nature, and provide an absolute internal basis for acceptance or rejection of any current social order, e.g., any government enactments that deprive an individual or a group of natural rights, such as survival, reproduction and property, are void – regardless of legal precedent (Berman and Greiner, 1980; Shiner, 1992). The internal control preferred by natural law legal theories has been used by managers to rationally discover the likely outcome of legal enactments and to resist immoral, activist judicial legislation that relies upon the merits or the outcomes of selected legal policies, e.g., positive law tort reform of the civil justice system supports Congressional legislation which imposes upper limits on damage tort awards, in contrast to natural law theorists who leave damage decisions up to the conscience of

the jury (Glendon, 1991, 1994). Rational discovery of the dictates of human conscience that constitute universal rights, responsibilities and freedoms in the legal arena are taken very seriously in this tradition, but if overemphasized the proliferation of human rights will stultify moral progress by encouraging endless lawsuits based on purported violation of imaginary rights.

The civic responsibility legal theories hold that law is a guide to more virtuous social relations and character formation, based on active, responsible citizenship. The increase in violent crime rates, the decrease of prison sentences, the reduction in voting rates, and the increase of children relying on Aid to Families with Dependent Children (AFDC) demonstrate the need for restoration of civic responsibilities to its independent normative role in legal/public policy theories in order to supplement current natural law and positive law theories. The immediate U.S. post-war orthodoxy regarded citizenship as essentially a matter of ensuring that everyone was treated as a full and equal member of society by claiming and according people civil rights, political rights and social rights, not out of charity, but because of legal entitlement (Berman and Greiner, 1980). In the classic Supreme Court Case, *Goldberg v. Kelly* (1970), Justice William Brennan, in writing for the majority, argued that welfare was not a gratuity or form of charity but more like a property right to which individuals are entitled (Reich, 1964).

This approach to citizenship has been criticized because of its emphasis on passive entitlements and its absence of any obligation to participate in public life (Glendon, 1991, 1994). Conservative and liberal critics have both recommended either replacing or supplementing non-participatory entitlements with the active exercise of civic responsibility and virtue, including economic self-reliance, responsible political participation, and ordinary civility (Olasky, 1992). With regard to the exercise of economic civic responsibility, conservative New Right theorists argue that citizenship inclusion requires the fulfillment of the common obligation of financial self-sufficiency (Heater, 1990). Since the welfare state discourages people from becoming economically self-reliant, conservatives

argue that the safety net should be cut back and any remaining welfare benefits should have obligations tied to them, e.g., “workfare” programs (Olasky, 1992). Responsible political participation and civility in the liberal tradition requires the following citizenship virtues: (1) general virtues: courage, law-abidingness, loyalty; (2) social virtues: independence and open-mindedness; (3) economic virtues: work ethic, capacity to delay self-gratification, adaptability to economic and technological change; and (4) political virtues: capacity to discern and respect the rights of others, willingness to demand only what can be paid for, ability to evaluate the performance of those in office, willingness to engage in public discourse (Galston, 1991).

The ability to question authority and the willingness to engage in public discourse are, however, two liberal virtues, which, when carried to extreme, offend the conservative sensibilities of respect for legitimate institutions, common decency and polite civility in public exchanges (Heater, 1990). What is needed is education for “public reasonableness,” which requires that all citizens give reasons for their political claims, not just state preferences, invoke traditions, shout demands, hurl insults or make threats. Workplace violence has increased dramatically and can be exacerbated by the lack of managerial skills in providing publically reasonable justifications for policies and procedures, and the lack of employee skills in articulating publically reasonable criticisms of workplace practices (Kingwell, 1994). In fact, the prevalent employee outsourcing strategy that relies heavily on temporary/part-time/virtual employees to reduce costs challenges the legal cultivation of civic responsibility and community-building in the workplace because it treats temporaries as mobile, economic immigrants, never entitled to the respect of full-time citizens. The civic responsibility approach holds that it is legally necessary to put civility back into civil society, as well as, into the workplace, as a civil community (Carter, 1998). This tradition does not take individual rights talk too seriously, but instead emphasizes the virtuous character formation that results from fulfilling personal and civic responsibilities, restraining self-indulgence and engaging in civil

discourse that builds communities. If overemphasized, however, this tradition could coerce individuals and businesses to conform and sacrifice natural rights, promote parochial norms that do not adequately respond to global business changes, and prevent people from facing sub-standard performance, thereby retarding moral progress.

Finally, social reform legal theories hold that law is both a reflection of the current socio-political system, which warrants criticism, and a way to systematically promote general social responsiveness and flexible judicial decision making (Kubasek, Brennan and Browne, 1996). These theories promote external change either through negative criticism of the legal status quo or through positive extension of the system and its actors to meet the new demands of current concerns.

Three variants of social reform legal theories are the interpretations of law referred to as critical legal studies jurisprudence, sociological jurisprudence and legal realism jurisprudence. Critical legal studies jurisprudence is an oppression-focused approach that criticizes judges who render decisions that preserve the existing political and economic, elitist system and advocates radical, democratic egalitarianism, e.g., the current U.S. legal distribution of hazardous waste sites and incinerators has been criticized as a form of legal, environmental racism because it unduly imposes risks on inner-city minorities (Kubasek, Brennan and Browne, 1996).

The second variant, sociological jurisprudence, is a sociological approach to legal interests that holds that the “living law” should be flexible enough to reflect a people’s current needs, conduct and aspirations, e.g., during the 1930’s, Depression mortgage moratorium laws were enacted to bar banks that held mortgages from foreclosing because the overwhelming economic needs of the time were accorded higher priority than positive contractual obligations (Shiner, 1992). As new domestic and global stakeholder interests have become identified and articulated, the judicial inflexibility, typical of positive law reliance on precedence and convention, has become unable to adequately address the demands of legal progress. To operationalize the

“living law” approach, legislators and judges are to implement inventories of contemporary interests to familiarize themselves with those new standards and legislate or render decisions in conformity with those changing standards.

The third variant, legal realism jurisprudence, is a change process approach to legal interests that holds that law is the product of various sociopolitical influences on the official discretion of actors in the legal/judicial system, e.g., if a speed-limit sign in a highway states that the speed limit is 55 mph, but the police officers on patrol do not pull drivers over unless they drive over 65 mph, a legal realist would say the law was, in fact, 65 mph because the law is what the official legal actors say it is (Berman and Greiner, 1980).

If overemphasized, however, the social reform legal theories can disrupt legal continuity necessary for business planning, waste resources on endless criticisms of the status quo or trying to anticipate and capture the latest legal fad, and risk loss of conventional social order that provides the bedrock of sustained business productivity, thereby jeopardizing moral progress.

In effect, business judgment integrity capacity is ultimately shaped by the degree of behavioral, moral and legal complexity that can be adequately handled by the balanced use of management, ethics and legal theories in business decision making. Business judgment that overemphasizes or underemphasizes any of the four major management, ethics and legal theories risks the loss of judgment integrity capacity. Relying on a single approach may be consistent and depending on two to three approaches may be congruent, but neither consistency nor congruence produce the combined, complementary four approaches that constitute business judgment integrity capacity, thereby promoting moral progress.

Developmental integrity capacity

Developmental integrity capacity is the cognitive improvement of individual and collective moral reasoning capabilities from preconventional self-interested regard (collective connivance) through a stage of conforming to external conventional

standards (collective compliance), and finally, to a stage of postconventional commitment to universal ethical principles (collective integrity) (Kohlberg, 1984; French and Granrose, 1995). Postconventional individual and collective moral reasoning capacities support collective process and judgment integrity by establishing principled norms for work culture decision making.

Collective developmental integrity capacity can be understood and implemented by cultivating group and organizational moral development stages that parallel those of individual business managers (Lickert, 1967; Kochan and Useem, 1992; French and Granrose, 1995). Individuals, for example, can morally develop from preconventional, self-interest through conventional conformity and onto postconventional principled conduct. Similarly, groups and businesses can morally develop through three stages: from a preconventional stage of collective connivance, through a conventional stage of collective compliance, and on to a postconventional stage of collective commitment to principled moral reasoning in resolving ethical conflicts. Only the last stage of collective commitment indicates individual and collective developmental integrity capacity (Petrick, 1998).

Collective connivance is a molar stage of moral development characterized by the use of direct force and/or indirect manipulation to determine moral standards. Managers who sustain this stage of collective development are either issuing threats of force (e.g., “Get it done now or else”) or developing exclusively exploitive relationships based on mutual manipulation (e.g., “What’s in it for me and forget the others?”) (French and Granrose, 1995; Sejersted, 1996). Firms that engage in child labor practices and extreme exploitation and intimidation of workers through long hours, unsafe working conditions and low wages create of climate of fear and distrust that undermines business developmental integrity capacity.

Collective compliance is the intermediate molar stage of moral development characterized by the use of popular conformity to work processes and/or adherence to externally imposed standards. Managers who sustain this stage of collective moral development are either admon-

ishing employees to secure peer approval by “getting with the program” or commanding them to comply with organizational hierarchy and/or externally imposed regulations. Corporate compliance efforts look to law for guidance, rather than to ethics, because they are driven by industry peer practices and/or by changing legal/regulatory standards which are externally imposed. This is a necessary but not sufficient stage for business developmental integrity capacity. Hence, a compliant corporation is not necessarily an ethically committed firm that acts with integrity when no government watchdogs are around; that requires internalized collective commitment.

Collective commitment is the highest molar stage of moral development characterized by the use of democratic participation and/or internalized, principled regard for other stakeholders as a basis for determining moral standards. Business managers who sustain this stage of collective moral development are either surveying majority trends or responding to the question, “What principled system is worth multiple stakeholders’ ongoing commitment?” In effect, the cumulative outcome of individual development integrity capacity over time forms the ethical work culture of groups and businesses, which can either support or inhibit collective commitment and moral progress. Ethical work culture environments, in turn, both reflect and influence the level of collective developmental integrity capacity achieved. For this reason, system integrity capacity needs to be implemented to institutionalize the other dimensions of integrity capacity and provide a supportive context for sustained moral progress.

System integrity capacity

System integrity capacity is the aligned implementation of organizational policies that institutionalize ongoing moral improvement within and between organizations and enable extra-organizational contexts to provide a morally supportive framework for integrity-building environments through statistically measured performance improvements (Lindsay and Petrick,

1997; Petrick, 1998). Collective commitment work cultures, for example, emerge by the regular practice of principled moral reasoning in everyday business decision making, but they are sustained only if system integrity capacity processes are institutionalized (Petrick and Quinn, 1997; Petrick, 1998). System integrity capacity skills of managers are pivotal in sustaining a committed rather than a conniving or conforming work culture. Part of the moral responsibility of managers today is to regularly assess and develop the ethical climate of a company to ensure a supportive context (barrel) for enhancing individual (apples) developmental integrity capacity. In fact, the worldwide Ethics Officer Association (EOA) provides examples of benchmark systems across all industries that provide examples of supportive contexts for ethical conduct through enhanced system integrity capacity. At the organizational level, one of the key system decisions is whether to focus on a compliance-directed system or an integrity-directed system (Ferrell et al., 1998; Weber, 1993).

One guideline for building a compliance-based system is the U.S. Federal Sentencing Guidelines for Organizations (FSGO). Organizations that install a compliance-based system invest in this ethical risk management technique to minimize potential financial losses in the event of illegal activity (LeClair, Ferrell and Fraedrich, 1998). The FSGO specifies seven fundamental company compliance requirements: (1) standards and procedures must be developed that are reasonably capable of reducing the propensity for criminal conduct; (2) specific high-level personnel must be responsible for the compliance program; (3) persons known to have a propensity to engage in illegal conduct must not be given substantial discretionary authority in the organization; (4) standards and procedures must be communicated to employees, other agents, and independent contractors through training programs and publications; (5) the organization must take reasonable steps to achieve compliance with its standards, by using monitoring and auditing systems to detect criminal conduct and a reporting system that allows employees and agents to report criminal activity; (6) standards

and punishments must be enforced consistently across all employees in the organization; and (7) after an offense has been detected, the organization must take all reasonable steps to respond to the offense and prevent further criminal conduct. These seven steps represent the minimum that an organization can take in demonstrating due diligence in complying with externally imposed standards. This type of system is regulatory, does not allow for statistical variation and demands conformity to external commands.

A more integrity-directed system is needed to go beyond external compliance to collective commitment and institutionalized improvement. This can be found in an Organization Ethics Development System (OEDS) that includes the following 16 components: (1) moral leadership and top management team ethical influence patterns; (2) ethical work culture and ethics needs assessments; (3) ethics in organizational strategy and structure; (4) formal statement of prioritized values and written codes of conduct; (6) ethics policy and procedure manuals/handbooks; (7) ethics in the human resource selection, socialization, and performance subsystems; (8) ethics in human resource appraisal, reward/recognition/incentive, and development subsystems; (9) ethics in formal and informal communication processes and work attitudes; (10) ethics training and education programs; (11) ethics in decision making processes; (12) ethics officer and/or delegated organizational ethics operational role responsibility; (13) ethics reporting and conflict resolution processes; (14) fair and uniform enforcement processes of ethical standards; (15) ethics audit and evaluation subsystems; and (16) ethics system and work process control and improvement (Petrick and Quinn, 1997).

One multinational corporation, Northern Telecom (Nortel), has institutionalized its *Acting with Integrity Program* and illustrates commitment to system integrity capacity. It sustains developmental integrity capacity because it is based upon full democratic participation and motivated by internalized ethical principles that are anchored by core business values applied to each of its stakeholders. "Living up to Both the Letter and the Spirit of Commitment," the *Acting with Integrity Program* main brochure, goes beyond

mere compliance with FSGO or specifying steps to follow in order to stay out of trouble. It recognizes that a business that institutionalizes a systemic commitment to act with integrity is cultivating its reputational capital, a key intangible asset that provides it with a sustainable competitive advantage, especially in global transactions (Fombrun, 1996). Again, Nortel's *Adviceline* is a classic example of emphasizing ethical integrity over compliance. Many companies have no feedback/reporting mechanisms or only are Alertline to catch people acting unethically after the fact, rather than an *Adviceline* designed to clarify moral options ahead of time, empower people to operationalize appropriate business values, and sharpen autonomous moral reasoning skills so that system integrity capacity is regarded as an important intangible asset to be protected and enhanced by everyone.

The prospects for achieving system integrity capacity are further dependent on the paradigms of quality system processes adopted by business managers, i.e., whether the business relies on the old paradigm of damage detection and focused control of moral processes or rather adopts the new paradigm of coordinated assurance and strategic deployment of moral processes (Petrick, 1998). In the first form of the old paradigm, damage detection, organizational ethics is the responsibility of security departments who detect wrongdoing at work and punish bad apples after the fact. The scope of the accountability structure for organizational ethics under this paradigm is extremely narrow, e.g., a single unit, and the reactive response is the moral norm, e.g., surveillance cameras to spot, and plainclothes security personnel to apprehend and detain shoplifters. The difficulty with the damage detection paradigm in organizational ethics is that normally it is ineffective because it overwhelms the detection resources of a single unit, risks unfair scapegoating because acceptable variance ranges for conduct are not clear, and creates resentment against system integrity capacity. In the second form of old paradigm, focused control, organizational ethics is built in by multiple departments through the use of tools, e.g., more selective integrity screening instruments for recruiting, random ethics audits,

targeted sanctions for unethical conduct, and prosecutions for severe offenses, to control ethics at work. In the absence of system knowledge of acceptable variation levels, however, managers risk undercontrolling destructive behavior or overcontrolling acceptable conduct, e.g., interpreting any behavioral deviation as statistically significant and overcontrolling acceptable moral variation. The predatory, righteous manager who is always trying to catch someone doing something wrong and who is quick to blame employees for any error, instead of improving the work process that allowed the error to occur, is particularly prone to this lack of system integrity capacity. The difficulty with the focused control paradigm in organizational ethics is that it limits accountability to a select, few department managers and provides them with focused tools that fix certain processes (often scapegoating bad apples along with acceptable, creative, moral individuals) but damage the system as a whole.

However, in the first form of new paradigm, coordinated assurance, organizational ethics compliance programs are designed in across all functions to assure conformity with legal and regulatory standards that are externally imposed, e.g., the FSGO or affirmative action employment approaches that are implemented cross-functionally and measured statistically to preclude unintentional discrimination through disparate impact on protected populations (Fiorelli and Rooney, 1991). The difficulty with the coordinated assurance paradigm in organizational ethics is that it is driven by external standards without internalized commitment, is not accorded strategic priority by top leadership, and does not use benchmarked processes to promote ongoing system integrity capacity improvement. Finally, in the second form of new paradigm, strategic deployment, organizational ethics is cultivated when top leadership accords strategic importance to building and maintaining collective commitment to an OEDS. The OEDS includes leadership by moral example to guide and align all ethics initiatives, regular organizational ethics needs assessments, ethics training to improve judgment and conduct, ethics enforcement and commendation procedures, audits to monitor organizational moral progress, and benchmarked

processes to measure and enhance moral reputation for system integrity capacity (Petrick and Quinn, 1997).

It is only with this last paradigm of strategic deployment that statistical skills are fully used to arrive at processes that measure and determine acceptable ranges of moral conduct. Moral processes, as sets of interconnected activities that often cut across functional units within a system, can vary from common, natural causes or from special, assignable causes. Because variation increases the cost of doing business, statistical quality control tools are used to distinguish one cause from the other. Because special causes arise from external sources that are not inherent in a process, e.g., a bad batch of material purchased from a supplier, a poorly trained operator, excessive tool wear or temporary personnel exhaustion, they need to be statistically identified and eliminated. A system governed only by common causes, however, is stable and does not require managerial intervention (Deming, 1982, 1988). It is essential for a business manager to statistically determine when a morally stable system exists within and outside the organization to sustain system integrity capacity.

Well-intentioned business managers can make two fundamental mistakes in attempting to fix a moral process: (a) treat as a special cause any fault or complaint when it actually came from common causes, and (b) attribute to common causes any fault or complaint when it actually came from a special cause. In the former case, managerial tampering with a stable system will actually make matters worse, increase costs and stimulate organizational cynicism toward moral improvement. In the latter case, business managers can miss the opportunity to eliminate unwanted moral variation by assuming that it is not controllable (Lindsay and Petrick, 1997). Knowledge of statistical quality process controls, therefore, is crucial to businesses that neglect to measure acceptable moral variation and consequently overcontrol or undercontrol moral conduct, thereby unintentionally reducing their system integrity capacity. Environments without system integrity capacity are not providing the supportive context (barrel) that institutionally sustains the other dimensions of integrity

capacity and risk overcontrolling unethical conduct through periodic “witch hunts” or undercontrolling unethical conduct by drifting into complacent corruption.

The caliber of system integrity capacity building skills determines the extent to which the ethics development systems are implemented within and outside of organizations to build global collective commitment to moral progress. Business leaders influence ongoing system improvement in such a way that collective moral progress or regression is in the hands of every stakeholder. In essence, organizations and societies will not improve system integrity capacity by merely controlling connivance or enforcing compliance (Petrick and Quinn, 1997). Not only must business leaders become role models for process, judgment and developmental integrity, but they must also build and sustain system integrity capacity to promote moral progress.

Summary discussion

The nature and value of the integrity capacity construct has been provided and its four dimensions – process, judgment, developmental and system integrity capacities – have been treated so that businesses can better handle behavioral, moral and legal complexity and thereby promote moral progress in business domestically and globally. The authors claim that as more stakeholders demonstrate process, judgment, developmental and system integrity capacities domestically and globally, moral progress in business will be operationalized and the ongoing momentum for moral improvement more likely to be sustained.

While the authors regard the growth of integrity capacity as intrinsically valuable, integrity capacity also instrumentally enhances the intangible asset of company reputational capital (Fombrun, 1996; Petrick, Scherer, Brodzinski, Quinn and Ainina, 1999). *Reputational capital* is that portion of the excess market value which can be attributed to the perception of a firm as a responsible domestic and global corporate citizen (Fombrun and Shanley, 1990). The reputational capital, for example, of Coca

Cola has been estimated at \$52 billion, Gillette – \$12 billion, Eastman Kodak – \$11 billion, Campbell’s – \$9 billion, and Wrigley’s – \$4 billion (Fombrun, 1996).

The importance of reputation, whether or not it is embodied in a trademark, suggests that it should receive responsible cultivation from business leaders. Reputation, which is usually the product of years of demonstrated superior competence, is a fragile resource; it takes time to build, cannot be bought, and can be easily damaged. The emphasis placed on careful cultivation of this business resource by managerial leaders signals that it is important for every stakeholder to be disposed to be both a promoter and a custodian of the reputation of the company which benefits them or employees (Hall, 1993).

One way to illustrate the components of reputational capital is to identify the business practices that enhance reputation in the eyes of relevant stakeholders. Successful business leaders achieve reputations for trustworthiness among employees through exemplary management practices – empowering and retaining employees, and instilling shared pride. They earn reputations for credibility among investors by showing profitability to individual and institutional stockholders, maintaining a stable return on investment, and nurturing financial growth prospects. Successful business leaders obtain reputations for reliability among customers and suppliers by ensuring quality, service, and innovation. They gain reputations for responsibility among community and public constituencies by prudently stewarding organizational, social, and natural assets (Davis, Schoorman and Donaldson, 1997). Finally, successful business leaders achieve reputations for accountability among government and competitor interests by complying with regulations and building a level playing field for fair competition.

Reputational capital, in turn, contributes to a company’s core capability differential (Prahalad and Hamel, 1990; Itami, 1987; Hall, 1993). 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., executive and team leadership

know-how, supplier know-how, distributor know-how) and cultural differential based on the collective leadership and integrity capacity development, perceive quality and improve service domestically and globally (Grant, 1996). In essence, the kind and degree of coordinated and leveraged skills and assets a business unit has will determine its core capability differentials and its ultimate sustainable competitive advantage (Hitt, Ireland and Hoskisson, 1998).

Sustainable competitive advantage occurs when a business unit (whether at the micro firm-level or macro industry-level) implements a value-creating strategy which other business units are unable to imitate. For example, a firm with superior leadership skills in handling moral complexity and building organizational integrity capacity enhances its reputation with multiple stakeholders and positions itself for competitive advantage relative to firms without comparable leadership style and substance (Velasquez, 1996).

In essence, not only is integrity capacity intrinsically valuable as a component of moral progress, but it is also instrumentally valuable for business success as the basis for the intangible asset of reputational capital that, in turn, leads to sustainable competitive advantage. World-class business leaders who use the integrity capacity construct will, therefore, have a more profound awareness of and clearer guidance on how business success and moral progress can simultaneously be promoted in complex environments.

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