REINFORCING THE NORM OF INTEGRITY FOR BUSINESS LEADERS

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In September 2015, the United States Environment Protection Agency (EPA) revealed that one of the world's largest automotive manufacturers had fitted its diesel motors with a "defeat device" in order to dissimulate high carbon dioxide emission levels, which were sometimes as high as forty times the legal amount. One of the most important questions during the trial was: "Who in the top management was informed of this massive fraud?" This scandal – along with many others – raises the question of ethics in corporate decisions. High-stakes decisions are, most of the time, made by senior management teams. According to what criteria do business leaders make their decisions? Besides strategic goals and the obligation of accountability toward the shareholders, do they use their personal values in the decision-making process? On a related note, do business leaders' personal values affect firms' behaviors?

THE UNIQUE IMPACT OF THE CEO

A long-standing debate among researchers and practitioners is over whether organizational characteristics – such as age, size, processes, or corporate culture – can provide the sole explanation for observed differences in firm behavior or if some of the variation can be attributed to differences among the individuals who make up the firm. This is an important question, since most scholars have long assumed that variation is owing to types of financing, interest in different types of markets, or shareholder demands. Yet, nascent research finds that individual and collective values within firms shape hiring policies and corporate social responsibility commitments that play an important role. Within this body of scholarship, there is increasing attention to the role of the values that Chief Executive Officers (CEO) bring to the firms they run.

Scholars have found, for instance, that different personal attributes of managers affect a firm's strategic decisions. The age of the CEO, for instance, is systematically associated with fewer merger and acquisition-oriented strategies. Likewise, whether a CEO began her/his career during an economic recession or while serving in the military has also been found to correlate with conservative investing and debt-serving strategies. More recently, attempts have been made to measure the impact of CEOs' level of "generosity" on employees' wages or corporate social indicators. One such strain of research draws on whether a CEO raised a daughter as a proxy for generosity, since related research has found that parenting a daughter increases the level of generosity among fathers in general. The findings are consistent with expectations: firms whose CEOs parented a daughter tend to pay their employees, all else being equal, more and adopt better corporate social responsibility policies. At the same time, little is known about other ways in which key leadership features matter. My research fills these gaps by focusing on the role of "integrity" in shaping firm policies. While this has been identified as a key feature when firms advertise for new leadership, scant research has been undertaken conceptualizing, measuring, and assessing what type of impact that "integrity" might have.

CEO'S INTEGRITY, SOCIAL NORMS, AND BEHAVIORS

Different arguments suggest that managerial integrity has critical potential for driving changes in norms and behaviors within the firm. First, there is theoretical and empirical evidence for the role that leaders play in shaping beliefs and norms in social groups. Through their interactions with a high number of employees, the authority arising from their organizational position, and their talent for communication, CEOs are more likely than any other employee to influence corporate culture. Consequently, CEOs with a high level of integrity may be instrumental in building " integrity norms" in the company. And, even in those cases where the CEO does not have the possibility to significantly shape an entrenched culture, she can still play a major role in reinforcing the prevailing values and norms.

Second, corporate culture can positively influence corporate outcomes through various means. By signaling the predominance of certain types of values, it can help the firm access a pool of adequate candidates and thus improve the efficiency of the recruitment process. Within the firm, a corporate culture focused on integrity may facilitate resolution of conflicts of interest between employees and their manager. For instance, an employee expecting high reliability from her employer will not hesitate to invest in the relevant skills and formation for her job, knowing that her investment will be acknowledged by her employer and rewarded in the future. Similarly, by directly increasing employees' satisfaction and motivation, a high norm of integrity can help the firm reduce turnover rates or monitoring costs.

HOW TO DEVELOP THE VALUE OF INTEGRITY?

Studying the values of 6,000 CEOs in Denmark reveals that high self-reported levels of honesty and sense of the community are strongly negatively correlated with objective measurements of employees' turnover.

- As recent research highlights the potential of managerial integrity for employees' level of well-being but also for corporate performances, business leaders' education programs could incorporate these findings and develop a discussion on how to define, use, and show integrity on a day-to-day basis.
- CEOs' incentives structure could be modified in order to account for the level of integrity more systematically. Mechanisms that identify and reward leaders with a high level of integrity should be developed, as well as mechanisms that detect and punish managers behaving poorly in terms of integrity. Improving internal control and external audit, or even making leaders accountable for other employees' unethical behaviors, could encourage members of the top management to act as role-models.
- As the *perception* of senior management by the employees matters as much as its actual behaviors in terms of integrity, business leaders should also be trained in how to share their intentions and communicate about their decisions; being transparent about which values or reasons are behind a decision can help employees build a fair perception of their leaders.