

# **Integrity: the New Niche for Enterprises**

## **Integrity is good for business**

Integrity is something you can take with you wherever you go. Once it becomes an integral part of you, it will follow you no matter what happens, and no one can easily take it away from you.

When an enterprise puts emphasis on integrity and ethics, the biggest beneficiary is the enterprise itself. As the saying goes, “Good ethics is good business.” *The Far Eastern Economic Review* also points out that investing in ethics is profitable in the long run, as good ethics makes good business, and good business makes good profits. The 2009 Global Corruption Barometer (GCB) published by Transparent International indicated that more than half of the interviewees were willing to pay more for products made by ethical companies. Therefore, investing in integrity does pay.

Operating with integrity is the rule of thumb for any enterprise wanting to fulfill its social responsibility. It is generally believed that a business can do whatever it likes to survive in a competitive market and to improve its operating performance, and thus integrity and ethics are no longer its concern. However, research conducted by American scholars on financial performance and social responsibility among enterprises concluded that a company’s financial performance is positively correlated with its efforts towards social responsibility. A socially responsible enterprise not only wins customers’ trust, but also strengthens its employees’ commitment to the company. An American nonprofit organization, Ethics Resource Center, points out that nearly 80% of employees think that the organization’s efforts towards integrity and ethics are crucial for their willingness to commit themselves to their jobs. Furthermore, working in an environment that emphasizes the importance of ethics and integrity is good to the employees’ mental health and helps build trust, which in turn increases productivity and reduces costs.

## **Corruption erodes the life of enterprise**

Integrity is an intangible asset that adds to a corporation’s value. Conversely, corruption destroys the value of integrity. The 2009 Global Corruption Report (GCR) published by Transparent International, entitled “Corruption and the Private Sector,” pointed out that in the past two years, companies have lost billions of US dollars due to corrupt practices. The cost extends to low staff morale and a loss of trust among customers, as well as business partners. Corruption increases costs by at least 10%, as corrupt enterprises have to pay a great deal towards political expenses such as bribery and lobbying. The cost not only undermines company management, but is transferred to consumers, leading to

people being overcharged and a huge amount of global economic resources wasted.

According to statistics released by the Ministry of Justice in the Republic of China (Taiwan), there were 14,537 people prosecuted for corruption and negligence of duty from July 2000 to December 2009. In 2001, the total number of non-civil servants prosecuted was 416 (23.95% of the total), but that number had increased to 6,397 (44% of the total) by the end of 2009. While most were enterprise owners or their employees indicted for bribery as accomplices, those prosecuted also include authorized quasi-civil servants. Their crimes blurred the line between the public and private sectors, and seriously undermined the government's reputation. While the statistics show that the number of business corruption cases is on the rise, that number excludes the corrupt practices within or between enterprises, such as frauds, breach of trust, and encroachment.

During the past ten years, several infamous corporate fraud cases have caused losses in the tens of billions of NT dollars. In the Rebar Group scandal alone, the number reached as high as NT\$73.16 billion. In other cases, such companies as Tong Lung Metal Industry Co., Procomp Informatics Ltd., Taiwan Pineapple Corporation, Kuang San Group (Tai Yu Products Corporation and Taichung Commercial Bank), and Chung Shing Bank obtained illegal profits of more than NT\$43.47 billion by means of falsifying financial statements, non-arm's length transactions, manipulating the market, insider trading, illegal trading associated with related parties, money laundering, setting up fictitious companies, and so forth. In other words, these corporate corruption cases alone have cost society NT\$116.6 billion, far exceeding the dollar value of public sector corruption cases uncovered during the same period (approximately NT\$33.3 billion).

Corporate corruption causes significant harm to societies everywhere in the world. In 2002, there were several big fraud cases in the US where enterprises ended up filing for bankruptcy, such as Enron and WorldCom. Enron was once the US's largest energy company and seventh largest company. Enron's assets increased from US\$10 billion to US\$65 billion in 16 years, but it went bankrupt in just 24 days, leaving 24,000 unprepared and helpless employees with their pensions wiped out. Senior staff lost more than US\$2 billion between them, let alone the vast number of shareholders whose Enron stock became worthless overnight. Total losses amounted to a market value of US\$60 billion.

At the heart of those corporations' overnight collapses are the combination of three fatal factors: arrogance, greed and corruption. A Taiwanese scholar, Dr. Kuang S. Yeh, thinks that successful enterprises may have individual reasons for their success, but all enterprises move toward failure for similar reasons: the infringement of integrity and not being practical enough. "An enterprise without integrity may be successful for a time but it will fail eventually," he said. Former President of World Bank, James D. Wolfensohn, considers corruption as "the cancer of politics," which destroys all the efforts made towards development. It may also be the "cancer of enterprises".

## **The corporate responsibility trend**

Corporations are born and grow in society. Without a high-quality society, there will be no high-quality corporations. If a corporation wants to be recognized and respected in society, it has to fulfill its social responsibility and operate with integrity and honesty. In 1999, the United Nations proposed a Global Compact (UNGC) to make human rights, labor, the environment and anti-corruption the common international indicators of how an enterprise carries out its Corporate Social Responsibility (CSR). The Compact advocates that a corporation should play the role of an active corporate citizen, and construct an honest and fair operating environment. Currently, more than 700 companies in more than 50 countries have signed the Compact.

Asia Pacific Economic Cooperation (APEC) has identified “promoting corporate social responsibility” and “combating corruption” as the two main issues that have to be dealt with in terms of globalization. It has also drafted a Code of Conduct for Business, and encourages the private and public sectors to build partnerships to improve management mechanisms and combat corruption. Other International organizations, such as the International Chamber of Commerce (ICC), the Organization for Economic Co-operation and Development (OECD), the World Economic Forum (WEF), the World Bank (WB), the World Trade Organization (WTO) and Transparent International (TI), have all advocated their respective ideals of what constitutes corporate integrity and acceptable standards for business operation. Social responsibility has clearly become an international trend for enterprises around the world.

When corporations want to go global, they must broaden their perspectives and management must meet with international commercial standards. Corporations realize that globalization has broken down barriers between countries and integrated the global economy. Globalized markets offer corporations more opportunity and freedom to pursue profit, but they also create additional responsibilities and possible pitfalls. In the face of fierce business competition arising from globalization, a corporation striving for sustainable success should avoid any unethical practices which might lead to the high legal costs and damage to its reputation. Corporations should blend the values of integrity and ethics into their corporate culture and management strategy. Integrity provides an advantage is definitely worth establishing, since any external advantages that a corporation may have are easily copied, while internal integrity is can become the corporation’s sustainable backbone.

## **Integrity leadership creates winners**

A famous 19<sup>th</sup> century Chinese merchant, Hsueh Yen Hu, put forward two maxims for business: “the commercial way is the human way” and “reputation is money.” Thus “refrain from cheating” remained his motto for doing business. In 1994, some famous enterprise leaders from Japan, the US and Europe voluntarily set up the Caux Round Table, and stated that enterprise leaders all over the

world should make efforts to improve economic and social conditions, to respect laws and human dignity, and to avoid engaging in illegal activities. It is clear that integrity is the common principle for successful business at all times and in all countries.

A corporation seeking for sustainability must not treat corporate integrity and ethics as a temporary trend or a new trick for marketing. Corporation leaders should systemically incorporate the honest and ethical management principles and strategies into the corporate cultures, and demonstrate their integrity and honesty with practical actions. Successful entrepreneurs and management scholars, such as Lee Iacocca, Warren Buffett, Jack Welch, Peter Drucker, and Henry Mintzberg, all point out that corporate leaders should possess good characters, be honest, and obey the laws in order to effectively exercise the leadership. They must show highly ethical behavior and social responsibility so as to meet the general public's expectation for the corporations.

It goes without saying that corporations have to seek profits, but the wealth obtained from violating integrity and moral principles would make the people involved and the whole enterprise sink into degradation. People with integrity have a moral and ethical ruler in their mind, and tend to make choices with higher moral standards. Successful people in sustainable corporations all exhibit honest characteristics. It shows that honesty and integrity are really competitive advantages for corporations. Showing honesty and integrity to win the trust from people is also the responsibility that a corporation leader has to shoulder.

### **Construct honest operating environment**

Since the emerging of consumer awareness, the society has expected the corporations to show higher moral and ethical standards. Honesty and integrity have become even more important. Peter Drucker believes corporate managers should take the impact of corporate policies and actions on the society into consideration, and think about whether their actions would be beneficial or harmful to the stability and harmony of the society. Corporations operating with integrity and establishing good brand images could foster the sustainable development for both the corporations and the society. This is the difference between a great enterprise and a mediocre business. A great enterprise proposes a vision that goes beyond simply making profits. Leaders of great enterprises emphasize the value of honesty and integrity, and also put them into practices.

On December 9 last year, the 2009 United Nations International Anti-Corruption Day highlighted the theme for that year, "Don't let corruption kill development," signaling anti-corruption as the most important issue in both the public and private sectors globally today. The United Nations Convention Against Corruption (UNCAC) is a very influential agreement in the world for fighting corruption and promoting integrity. It especially addresses workable principles for internal control and behavior regulations in the private corporations. The Taiwanese government, based on

the United Nations Convention Against Corruption and the concept of National Integrity System suggested by Transparent International, incorporates the spirit of building partnership between the public and private sectors into the National Action Program for Clean Government, promulgated on July 8, 2009. In terms of promoting enterprise integrity, the program includes strengthening corporate governance and enterprise ethics, initiating corporations' social responsibility, and encouraging and rewarding enterprises for building ethic standards and internal control mechanism. These actions are supervised and assisted by the Ministry of Economic Affairs and the Financial Supervisory Commission of the Executive Yuan, aiming to create an honest environment and to encourage corporations to fulfill their social responsibility.

### **Clean Government and Honest Society**

Integrity and ethics are the key elements in building a clean government, and they are also the foundation for the smooth operation of free markets. Taiwan plays an important role in the global economic development. We expect that Taiwan will be as famous for its ethics as its economic performance in the international society. Government and enterprises play the crucial roles in the diverse management network of promoting fairness and justice in the society and of enhancing national competitiveness. Both sides need to contribute their efforts to work together. On the 2009 International Anti-Corruption Day, the secretary general of the United Nations, Ki-Moon Ban, called on the private sector to catch up with the government, and urged the private sector to take the anti-corruption measures that comply with the UN conventions. In the meantime, the World Bank and Transparent International both considered corporations as an important factor in constructing national integrity system, and both organizations expected that the enterprises fulfill their social responsibility, take concrete actions to build honest culture, and participate in the promotion of building national integrity system.