

Corporate Secretary Week: A culture of integrity increases shareholder value

At a time when it seems the value of almost everything is diminishing, a recent survey suggests that integrity is increasing in value. If you didn't think integrity had a monetary value or, on the contrary, you thought being too nice could very well cost you money when it came to business, you might have to think again. The Corporate Executive Board (CEB) suggests that 'integrity capital' is a new currency that companies need to use to their advantage as economic conditions in the US and abroad continue to deteriorate.

Simply put, integrity capital is the financial benefit a company reaps from promoting a culture of integrity among its workforce. The CEB surveyed about 130 companies for the level of integrity within their corporate cultures and found companies scoring the highest marks outperformed those with the lowest by more than 16 percentage points when it came to shareholder returns.

The top quartile of companies surveyed averaged a 10-year total shareholder return of 8.8 percent, while the bottom quartile averaged a loss of 7.4 percent. What these results demonstrate is that not only does an emphasis on corporate integrity make money over the long term, but a lack of corporate integrity will cost you money over time.

Common sense would suggest that having a company filled with 'goody-two-shoes' employees who look out for and report misconduct, fraud and safety hazards will significantly lower the incidences of risk-related events at a firm. But the CEB also says there is evidence that companies with a culture of high integrity enjoy a 12 percent advantage in employee productivity over other firms. Maybe that's because employees who embrace integrity will always give a full-day's work - for integrity's sake.

But the windfall gleaned from integrity capital doesn't just end with a company's employees - it extends to its customers as well.

When the Ethisphere Institute announced its list of the World's Most Ethical Companies in March, executive director Alex Brigham noted that, 'In addition to increased financial performance, ethical companies benefit from better brand reputation, consumer loyalty and higher employee retention rates.' Since the list was first created in 2007 companies chosen for the ethical companies list have outperformed the S&P 500 by an average of 7.3 percent each year.

So now that there is ample and growing evidence that integrity improves corporate performance, is it ethical to continue to ignore the level of integrity within your own organization?

Here's what the CEB suggests companies do to build their integrity capital:

1) Merchandise the virtue of openness throughout the company. Name and celebrate employees and managers who quickly identify business problems and implement early interventions. Leading by example will improve compliance.

2) Diagnose and intervene in cultural 'risk zones.' Identify places in your company where employees are less willing to report problems and misconduct. Target these areas and employees with increased communication, training and support resources that will help them understand how reporting minimizes risk to themselves and the company.

3) Adapt messages to cultural context. Translate vague corporate values into specific expected actions that are sensitive to local cultures - especially when operating globally and in emerging markets.

Please send me your thoughts.



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