**COMPARATIVE COMPANY LAW**

**(SUSTAINABLE CORPORATIONS)**

**Integrity Project**

Today’s readings are the last of the course. Today you’ll be exposed to something completely different. Rather than look at the corporation as something that defines business roles – through a system of “carrots and sticks” -- we consider the corporation as a human organization in which individuals bring their own sets of values, perspectives and concerns. That is, we will look not at the “external” conflicts presented in a corporation, but rather the “internal” ones.

The first reading is from a Dutch law professor Jaap Winter, an expert on executive compensation in modern public corporations. He points out that much of the contemporary design of executive compensation, which largely revolves around fine-tuning “performance” incentives, may actually misconceive how people are motivated. He points out that there are psychological phenomena that indicate that when we are presented with “incentives,” we sometimes do exactly the opposite of what we are “incentivized” to do. He argues that we must break down the myths of what motivates people, particularly executives in corporations, and replace them with new (or perhaps ancient) understandings of what deeply moves us.

The next two reading – and the final readings in the course – summarize a perspective taken by Professor Michael Jensen. We have come across Jensen in numerous instances in this course. He is the person who wrote the influential 1976 article on “agency costs,” identifying the corporation as a principal-agent relationship and corporate law as a set of rules to reduce the conflicts between shareholders (the principal/owners) and corporate managers (the agents).

Much has happened since Jensen’s article. For one thing, most economics (and law) academics have accepted as “truth” that the corporation – as well as the many instruments of corporate governance – is about managers acting for the benefit of shareholders. That is, the Jensen “agency theory” model accepts shareholder wealth maximization as an unquestioned norm. For another thing, nearly all academic writing – and thus nearly all corporate policy – has sought to identify and ameliorate the manager-shareholder conflict. Corporate contracts, stock markets, securities regulation, even cultural norms all point toward this one vision of the corporation.

Agency theory, however, has not lived up to its promise. While some corporate governance mechanisms have reduced agency costs, others have had untoward effects. For example, rules that fostered markets in corporate control resulted in the leveraging of companies in ways that were not sustainable; stock option compensation created incentives for managers to manipulate stock prices; and risk management by outside directors resulted in disastrous group-think. That is, many corporate governance mechanisms seemed to produce more (and costly) side effects than the benefits that were promised. Agency theory seemed not to anchor the corporation in a “purpose” that people could fully believe in.

The first Jensen reading is an interview that gives you an insight into his “integrity model” – where a necessary condition to full workability and productivity is that individuals and organizations “keep their word.” The second Jensen reading is an abbreviated version of his much longer article setting out the “integrity” framework. If after reading the interview you’re intrigued, you can read the longer version!

**Readings:**

* + Winter, *Corporate Governance Gone Astray* (2012)
	+ Jensen, *Interview – Rotman Magazine* (2009, updated 2014)
	+ Jensen, *Integrity: A Positive Model* (2010)

**[CORPORATE GOVERNANCE GOING ASTRAY:](http://ssrn.com/abstract%3D1792483)**

**[EXECUTIVE REMUNERATION BUILT TO FAIL](http://ssrn.com/abstract%3D1792483)**

Jaap Winter

(2012)

**I. Bonuses of contention**

Most of the modern academic thinking on corporate governance starts from the understanding that in public companies with dispersed ownership an agency relation exists between the managers as agents whose decisions affect the shareholders as principals. Corporate governance and underlying company law mechanisms are very much about addressing the issues triggered by this relationship, seeking to ensure that managers act in the interests of shareholders.

A relatively new corporate governance mechanism, introduced in the 1990s, is to align the interests of managers with the interests of shareholders through the remuneration of executives. This was done by making executive pay dependent upon meeting performance targets and by paying executives in stock options and shares of the company. Scholars in the US claimed that the problem of executive remuneration was not that CEOs received too much pay, but that their pay was not related to the performance of companies (Jensen, Murphy 1990).

Performance based pay in the US [encouraged by US tax laws] primarily took the form of stock options, based on the belief that stock options did not present a cost to the company. Europe was quick to catch up with performance based pay. Large cash bonuses, stock option and share awards have become common pay features for executives of EU listed companies.

Performance pay, popularly captured under the now ominous term “bonuses”, in the meantime has become highly contentious in the wake of the financial crisis. Many believe extreme variable pay schemes have led executives, managers and traders of financial institutions to excessive risk taking with short term private benefits for themselves and the risks shifted to the institutions.

Public outrage has been triggered even more by the continuation of excessive bonus payments by some financial institutions while they and other institutions with which they trade have received billions and billions of aid from governments, paid for by tax payers’ money (Sandel 2009). Although performance based pay did receive criticism before the financial crisis (Bebchuk, Fried 2004, Jensen, Murphy 2004), the public and political outrage after the crisis go way beyond such criticism and cause a major rift between financial institutions, and perhaps the business community at large, and the rest of society.

Both the public outrage and the lack of responsiveness from the industry preclude a sensible debate about the effectiveness of performance based pay. My sense is that we can only return to normal if both sides of the debate would focus on what performance based pay is actually doing.

This article seeks to contribute to such a debate. The key argument is that performance based pay for executives not only suffers from the original criticism of bad governance and poor design, but that it cannot be made to work because people behave differently than performance based pay assumes. I think we have shot ourselves in the foot with a governance mechanism that was supposed to mitigate the agency problem but has aggravated it instead. My argument is not of a legal nature but is concerned primarily with the reality of being human that underlies our rules and practices.

This article is about performance based pay for executive directors of listed companies, as a governance response to the perceived agency problem of well informed managers who are in control and may not always act in the interest of less or uninformed dispersed shareholders. I am not making the claim that performance based pay never works in any setting, although I do believe the evidence presented here may also be relevant for the effectiveness of performance based pay in other settings.

**II. Initial criticism: the governance and design of executive remuneration**

Criticism of performance based pay systems to reward executives is not new. In 2004 *Bebchuk* and *Fried* published their book “Pay without Performance, the Unfulfilled Promise of Executive Compensation” (Bebchuk, Fried 2004). The core element of their argument is that performance based pay for executives assumes that a company’s board of directors negotiates pay arrangements at arm’s length from executives, which does not happen in reality.

“Directors have had various economic incentives to support, or at least go along with, arrangements favorable to the company’s top executives. Various social and psychological factors – collegiality, team spirit, a natural desire to avoid conflict within the board team, and sometimes friendship and loyalty – have also pulled board members in that direction. Although many directors own shares in their firms, their financial incentives to avoid arrangements favorable to executives have been too weak to induce them to take the personally costly, or at the very least unpleasant, route of haggling with their CEOs. Finally, limitations on time and resources have made it difficult for even well-intentioned directors to do their pay-setting job properly.”

Bebchuk, Fried suggest a number of improvements both to pay schemes (for example, reducing windfall profits) and to the governance and transparency of performance based pay schemes, including requiring shareholder approval of equity based plans.

After having promoted performance based pay as a means to mitigate the principal-agent problem, *Jensen* and *Murphy* have reviewed actual pay practices in 2004, concluding that the design is often poor (for example on performance targets) and that boards typically simply ratify executive’s remuneration initiatives (Jensen, Murphy 2004).

Regulation of executive remuneration until now also primarily focuses on the governance of remuneration: the role of independent non-executive directors, shareholder vote on remuneration policy or remuneration reports and on share-based schemes of remuneration, independence of remuneration consultants, disclosure of individual director pay etc. Regulation, as the initial criticism, assumes that performance based pay can be made to work if only it would be designed and governed better.

**III. Can we handle executive performance based pay?**

Research from a wider field of cognitive sciences seriously questions whether performance based pay for executives can ever be made to work. The nature of the challenges has everything to do with who and how we are as human beings. The evidence provided comes from new research into how we make decisions and choices, our biases, our blind spots, our self-serving nature and our perceptions of fairness. Somehow little of the findings of this research has found its way to the debate on performance based pay for executives.

In the following paragraphs I will discuss what we know about incentives, target setting and benchmarking and why this, at least for me, destroys the validity of our assumptions underlying performance based pay for executives. It appears that we as humans simply cannot handle performance based pay.

**IV. Incentives and Behavior**

Economic theory has long held that monetary incentives improve performance. Since the governance crisis at the start of this millennium it has been recognized that in particular stock options as the mechanism that was introduced to reward executives may provide perverse incentives. *Coffee* explained how the surge in stock option schemes in the 1990s has led to a proportionate surge in restatements of annual accounts by listed companies in the US (Coffee 2003). Shares acquired under stock option schemes could be sold immediately, which lead executives to drive up the stock price through aggressive earnings forecasts, which they then satisfied by premature earnings recognition thus sustaining higher market valuations.

But the problem with monetary incentives lies much deeper. A growing body of psychological research raises serious questions about the effects of monetary incentives. An important phenomenon that is now widely evidenced is *crowding out.* Monetary incentives appear to have the effect that the intrinsic motivation of people to perform a certain task well is moved aside by the extrinsic monetary incentive. This often has the effect that people actually perform less than without the monetary incentive.

An often cited example of the “crowding out” effect are fines that a day care center in Israel imposed on parents who arrived late to pick up their children, which resulted into more parents coming late. Parents perceived the fine as a price to be paid for additional services, which substituted the feeling of guilt or obligation parents may have towards their children and their care-takers (Gneezy, Rustichini 2000).

Once an explicit incentive is introduced the perception may shift to the understanding that effort is only required because of and according to the incentive, and the social norms as a basis for providing effort are forgotten. *Ariely* offers a variety of examples, including one of lawyers who generally refuse to offer services for retirees at a very low rate of $30 an hour, but overwhelmingly agree to offer those services for free (Ariely 2008). The low fee signals that the activity is governed by market norms with sharp-edged exchanges and no place for pro-social behavior. Without the fee being offered the perception is that the activity is governed by social norms, based on our need for community and mutual help.

The crowding out effect is not all. A different strand of research indicates that monetary incentives have a negative impact on creative, non-mechanical tasks. In 1945 *Duncker* conducted an experiment, giving participants a candle, a box of thumbtacks and a book of matches and asking them to fix the candle to the wall so that it would not drip on the table below. Many participants try to fix the candle to the wall with the thumbtacks, or to glue it to the wall by melting it, which all does not work. Only a few find the solution to empty the box of the thumbtacks and fix the box to the wall with the tacks as a platform for the candle to stand on.

*Glucksberg* reported in 1962 that participants who are told they will receive a reward for solving the candle problem faster actually are slower in solving the problem than participants who are only told they are being timed in order to find out how fast people can solve the problem (Glucksberg 1962). The reward narrows the cognitive focus, blocking creativity. In other words, the carrot in front of our eyes blinds us, in particular when we need to perform complex tasks, requiring assessment of complex information. This is a cognitive analogy to limitations in our visual perception called inattentional blindness. We have a tendency to only see what we are looking for and to miss what we are not looking for, even when we are staring directly at it.

Perverse incentives, crowding out and narrowing of cognitive focus -- the evidence from modern research is that the effect of monetary incentives on the performance of complex cognitive jobs is likely to be negative. The job of an executive is complex, requiring not only strong analytical skills but also an awareness of and an openness to yet unknown or uncertain factors and information and the ability to weigh opportunities and risks in light of these uncertainties. The alignment theory as a justification for performance based pay in itself is a strong signal that the performance contingent incentive is intended to be controlling, seeking to ensure that the executives as agents perform in the interests of shareholders as principals, which they, apparently, would not do otherwise. The insistence by shareholders that executives should only be paid if there is clear, measurable performance gives the same signal. The variable part of total pay of the executive has increased substantially over the last decade and a half. This has enforced the crowding out effect and at the same time has narrowed the cognitive focus of executives to ensuring that targets will be met and the performance based pay is actually paid.

**V. Target setting, gaming and cheating**

A crucial element of performance based pay for executives is setting targets in advance and measuring if and to what extent these targets have been met. The pay-out is then related to the actual achievement in relation to the pre-set targets. Based partly on experience and partly on perception, shareholders and code regulators have insisted that the targets to be set should be objective and measurable and should be disclosed to the extent not competition sensitive.

I leave aside here that the targets often used in performance based pay systems offer only a one-sided, often short term perspective on performance that is to be rewarded, typically produced by financial performance indicators that happen to be available. Regulation attempts to deal with this by insisting that longer term targets and non-financial targets should be used to measure performance that is to be rewarded. But target setting has a number of negative side effects that are completely ignored in the discussion on executive remuneration.

As *Ordonez, Schweitzer, Galinsky* and *Bazerman* write on the basis of a study of literature on goals setting and performance, target setting can narrow focus, motivate risk-taking, lure people into unethical behaviour, inhibit learning, increase competition, and decrease intrinsic motivation (Ordonez, Schweitzer, Galinsky, Bazerman 2009). *Jensen* describes the same phenomenon for the other example of goal setting we are so completely accustomed to: budgeting. *Jensen* calls budgeting a game that pays people to lie twice, both at the setting of the budget and when measuring whether the budget has been met or not. “Tell a manager that he or she will get a bonus when targets are realised and two things are sure to happen. First, managers will attempt to set targets that are easily reachable, and once the targets are set, they will do their best to see that the targets are met even if it damages the company to do so.” (Jensen 2003)

The cheating that goes on in target-setting and measurement in business is ubiquitous and at the same time accepted as a matter of fact. Paradoxically, most people engaged in this process do not see themselves as being dishonest. In corporate life this cheating has become very much the norm when it comes to target setting for budgeting purposes, in particular when performance based pay is related to such targets, with very little or no attention at all to standards of honesty and integrity. The result is that target setting defeats its purpose of ensuring that only real and objectively measurable performance is rewarded.

**VI. (Bad) luck**

Another, related problem with performance based pay is that it tends to reward windfall profits, increases in performance which are just a result of general market developments rather than real performance of executives. The solution is to try to single out the individual performance of a company as compared to general market trends.

The tendency to overestimate our performance fits into a pattern in which we generally view ourselves in a more positive light than is objectively accurate. The basis for this tendency is our motive to affirm self-worth. People react to negative information about themselves by making more self-serving attributions that affirm their worth. We look for reasons outside our own performance to explain the failure to reach targets. To preserve our self-worth we then explain that we worked very hard in a difficult market, which justifies that we receive our bonus. Or we start to cheat to ensure that targets will be met, to the possible detriment of the company, or to show that targets have indeed been met while in reality they have not.

**VII. Benchmarking for fairness and status**

A final essential feature of modern executive remuneration schemes is the benchmarking of the performance of the company to the performance of other companies in a peer group. Similar to the insistence on objective and measurable targets, benchmarking was introduced to provide for a more objective standard of the company’s performance and, possibly, to exclude windfall profits. And as with performance targets, the composition of peer groups has been widely manipulated in order to ensure that executive remuneration would go up regardless of performance. But the heart of the problem is much more pervasive. Benchmarking is an expression of the human reality that we perceive the fairness of our income in relative terms, relative to what others make for similar or different jobs.

One particular element of the benchmarking of executive remuneration warrants special attention. Remuneration policies typically provide that the company will reward its executives above the median, or sometimes in the top quartile of the peer group. The argument for this has generally been that a company with an ambition to be successful cannot afford to pay its executives only in the lower 50% of the companies it compares itself with. The result is well known: the remuneration of executives of all companies will spiral up. If a company is not yet paying its executives in the upper half, it will have to increase remuneration to get there. As a result another company will drop from the upper half and will have to increase its executive remuneration to get back above the median -- and so on and so forth.

Many blame the disclosure of individual directors pay, which has been made mandatory in many EU member states in the last few years (Ferrarini, Moloney, Ungureanu 2009), as the root cause for this effect on executive pay. I do not think it is the main cause. Benchmarking would have taken place also without disclosure of individual director pay. It is the core business of remuneration consultants advising companies and their non-executive directors on pay levels and structures.

The fairness of executive remuneration as executives perceive it themselves is closely related to social status. In our world of financial capitalism, remuneration has become the key measure for the status of executives. It is the same with fund managers, investment bankers, management consultants, doctors and lawyers. High remuneration signals high social status among peers. The problem with social status is that it is a zero sum game: if you have more status than I have, then I should get more by receiving even higher pay, after which your status will have been reduced and you need to get paid more in order to get more status etc (Layard 2005).

The Russian peasant, whose neighbor has a cow, when asked by God how He can help, answered: “Kill the cow.” (Layard 2005) We all continuously need to *keep up with the Joneses* and executives are no different. The status factor probably is even more important than the actual income derived from pay schemes as such. Most executives when asked admit that they do not need the high income they receive and would be willing to cut back but only when others accept a cut-back too.

**VIII. Regulation will not help**

The research described here indicates that the difficulties with executive remuneration are much more fundamental than previously discussed. Financial incentives often work counterproductive, in particular when the incentives are large and the job to be done is cognitively complex. Performance based pay on the basis of pre-set targets induces manipulation and cheating, while our self-serving nature allows us to maintain that we are honest, deserve the pay and ignore the cost of lack of integrity. With remuneration as the key indicator of status for executives, they are all trapped in an upward spiraling race that no one can ever win.

I very much doubt that any new design or better governance of executive pay schemes can solve these fundamental problems of performance based pay for executives. Additional design elements are likely to enhance the control-nature of the incentives, targets and wider conditions of performance based pay. They will have precisely the unintended effect of crowding out executives’ intrinsic motivation to perform well and will provide ever more incentives to cheat and manipulate and to not feel bad about it.

A typical response in such a situation would be to regulate executive remuneration, prohibit performance based pay or at least restrict it substantially. The prospects of such regulation however are dim. Moreover, regulation will never be realistic if we do not fundamentally reconsider the pros and cons of performance based pay. Also, the problem of ineffective and counterproductive executive pay in essence is a private problem, the consequences of which are suffered by companies and shareholders in the first place.

In all likelihood regulation will have precisely the opposite effect. The more we regulate, the more our responsibility focuses on compliance rather than on the effect of our behavior. The more rules we make the more we only care about following the rules and think that within the rules we are free to do whatever suits us best, regardless of the consequences for others (Winter 2010).

Companies and their shareholders will have to come to their senses: performance based pay for executives is not a solution for the alignment problem, not because of the design or governance but because of who we are.

**IX. A paradigm change**

Coming to our senses is easier said than done. The business community and the financial industry within it have created a strong belief that performance based pay is the right way to remunerate executives. With executives being on the bonus drip for almost two decades and remuneration consultants depending on creating benchmarks and designing complex performance based pay systems there are powerful vested interests to maintain the current remuneration paradigm. So what should we do? I offer three things: deconstruct the myths surrounding performance based pay, building a new narrative and some lessons for the key actors: shareholders, non-executives and executives. None of this is rule or incentive based. And none of this is of a quick-fix nature.

*Deconstructing Myth*

The business community (companies and their shareholders) has created a cascade of myths surrounding performance based pay that its members have massively started to believe in. The myths include:

* performance based pay for executives actually enhances overall performance of companies
* the more performance based pay the better the performance of the company
* executives personally create success for their companies
* when executives lead companies to higher performance they are entitled to receive

part of the gains

* executives only perform well when they have “skin in the game”
* substantial performance based pay is essential to retain first class managers in an

international market for executive talent

* financial rewards are the key indicators of personal success.

The combination of these myths leads to *worldviews* and *frames of reference* that have come to dominate the business community and how it behaves. *Erhard, Jensen, Zaffron* and *Granger* describe worldviews and frames of reference as “the network of unexamined ideas, beliefs, biases, prejudices, social and cultural embeddedness and taken for granted assumptions through which an individual interprets and interacts with the world, other people and himself or herself or with a given specific something in his or her world”. (Erhard, Jensen, Zaffron, Granger 2010)

The pattern of action that follows may not be consistent at all with what is actually there. Here is an example of how it works. *David de Cremer,* a Rotterdam based professor of Behavioural Business Ethics, recently interviewed fifteen executives of Dutch banks, with some revealing results (De Cremer 2010). They all believed that others in the banking world find bonuses more important for performing well than they themselves do. De Cremer continues with asking the executives to make a choice between two types of bankers to manage their personal wealth. Type A banker only works for his personal financial incentive, type B banker has a genuine interest in banking matters and wants to provide service to customers. All executives said they would bring their money to banker B. The self-created myth about what sort of remuneration is needed to retain talent leads banking executives to hire the people they would not entrust with their own money. Who is fooling whom?

Our standard legal (i.e. rules prohibiting or prescribing behaviour) and economic (i.e. incentives determining the behavior of rational subjects) approaches will not challenge the myths surrounding performance based pay, they are based on these myths. They need to be fundamentally innovated with the input of modern cognitive sciences.

*Building a New Narrative*

Deconstructing the myths surrounding executive performance based pay will also require that an alternative remuneration narrative is built. The new narrative should include a few key elements:

* *Make remuneration less significant:* rather than using remuneration as a primary instrument to steer executive behavior we should reduce the importance of remuneration. Money is a threshold motivator: it motivates only up to a baseline, beyond that it does not do much and likely more harm than good.
* *Benchmark internally instead of externally:* the crucial factor that can move remuneration off the table is fairness. Fairness here is relative fairness, compared to what others receive for similar or different jobs. As long as people perceive that their remuneration is unfair in light of what others receive remuneration will remain an issue. Our current model is set to focus excessively on external fairness, in relation to peers in the industry. At the same time internal fairness is often ignored completely, with executive remuneration becoming ever higher multiples of average employee pay. Refocusing benchmarks on internal fairness will help to stop the upward spiraling that is the result of automatic benchmarking with external peers, pushing remuneration up without any connection to underlying performance. Most companies need executives who are committed more to the company’s future than to their own remuneration.
* *Reduce variable pay substantially and use a wide set of collective targets:* executive variable pay today often doubles or triples fixed pay. This triggers the cognitive focus on everything that can ensure the desired outcome regardless of the risks or costs involved. Variable pay should be reduced substantially as part of overall compensation. And as long as performance based pay systems are used, the target setting should include a wide set of measures, indicating the company’s performance in a number of areas that are critical for its success in the future, including non-financial indicators.
* *Our real motivation:* remuneration should not be allowed to destroy our real motivation to do well at our jobs. *Pink* has researched extensively what truly motivates us and three factors stand out: autonomy, mastery and purpose (Pink 2010). A sense of autonomy – willful choice, and the opposite of control -- has a powerful effect on individual performance as a number of behavioral studies indicate (Csikszentmihalyi 1975). Autonomy requires trust both from the person who does the job and from the person who assesses the performance. Autonomy leads to engagement, which enhances the ability of people to take responsibility for the job they should perform. Performance based pay is precisely doing the opposite as it seeks to exercise control over performance by rewarding achievement of pre-established targets and takes distrust as its starting point. The second element is striving for mastery, which appears to be a strong predictor of productivity. If the challenges are set right, not too high when the fear of failing creates anxiety, or too low when we get bored, people can get into flow, continuously improving their mastery. Work becomes play and self-fulfilling: the activity is its own reward. The third element, is purpose. People become particularly motivated if they can contribute to something that is larger than themselves. Chasing personal profit goals and reaching them does not satisfy us, while striving to reach purposes beyond ourselves has a lasting effect on our happiness. Modern happiness studies all indicate that finding purpose in something larger than ourselves is a crucial factor contributing to happiness. *Seligman* describes transcendence as one of the six virtues endorsed by almost all religious and philosophical traditions (Seligman 2008). *Haidt* describes the elevation that stirs a warm emotion in us when we witness moral beauty (Haidt 2006). It is also the source of power and passion that leaders need (Erhard, Jensen, Zaffron, Granger 2010). And again, performance based pay is doing precisely the opposite: it makes our own direct pay-off the driving force of our actions, rather than the larger purposes we could be striving for.
* *Integrity:* substantial performance based pay leads to ubiquitous cheating, which people grow to no longer recognize as such. This is partly because they tell themselves they have acted within the rules and therefore all was fine. This is ignoring a vital element of effectiveness and performance and that is integrity. Integrity in the sense developed by Erhard, Jensen and Zaffron, meaning whole and complete. People have integrity when their word to others is whole and complete. This requires honoring your word, which is either to keep your word and do what you said you would do (at the time and in the manner you said or implied you would) or, as soon as it becomes clear that you will not keep your word (because you cannot or no longer want to keep your word), tell the other who relies on your word that you will not keep it and deal with the problem that you have created for the other by not keeping your word. By honoring your word, it remains credible -- and as a person you remain effective. The same is true for an organization. Acting with integrity enhances productivity and creates value (Erhard, Jensen, Zaffron 2009). Lack of integrity can exist within the boundaries of any set of given rules and also then has the effect of reducing effectiveness and productivity. Substantial performance based pay creates a blind spot for breaches of integrity within the rules. Detailed compliance systems have the same effect: as long as we stay within the rules and procedures we fail to see that there may be massive integrity problems. Removing the blind spot allows us to focus on integrity as an essential ingredient of performance.

*Lessons for shareholders, executives and non-executives*

What are the lessons? Performance based pay for executives in its current form does not reduce the agency problem, but exacerbates it. Substantial performance based pay increases the focus of executives on their personal interests to the detriment of all other interests, including the interests of shareholders. Alignment of financial interests has proven to be an illusion.

So what is the alternative? The idea that executives of public companies cannot be trusted to take the interests of shareholders sufficiently into account is deeply rooted. But one of the core reasons for the lack of trust between shareholders and executives may be a lack of engagement between the two. Working toward engagement is a much more promising avenue for shareholders to secure the value of their investments than relying on performance based pay for executives to create an illusory alignment of financial interests.

Seeing our worldviews and frames of reference that guide our perception and actions is difficult for all of us. If you also have a strong material interest in maintaining them, like executives have with performance based pay, it becomes all the more difficult. It is therefore no surprise to see that executives struggle to listen, understand and appreciate the criticism on their remuneration and not dismiss it outright, there is simply too much worldview and self-interest in the way. More regulation restricting remuneration in form and scope will not help executives to see their self-created myths on remuneration, it will only confirm them in their view that the politicians, media, trade unions and the public in general don’t know what they are talking about. Many theories about leadership have been developed over time, but a crucial commonality is that leadership is not about the success of the leader but of the organization he leads. It is precisely this shift of attention from oneself to the purpose beyond oneself that also gives the leader access to a much deeper level of enduring satisfaction and happiness. This finding is so basic and yet so easy to ignore, certainly in the face of large personal gains that can be made. “You only see it when you get it,” is how Johan Cruijff, the famous Dutch soccer player, describes it (Winsemius 2005). It takes courageous leaders to acknowledge that the focus on personal income has not worked well and to develop new, truly motivating stories.



**“Integrity”**

**Rotman Magazine Fall 2009**

Interview by Karen Christensen

Revised March 28, 2014, M. C. Jensen

There is some confusion between the terms integrity, morality and ethics. How do you differentiate them?

These three phenomena are widely understood to provide standards of ‘correct’ behaviour, but people generally get them mixed up. I distinguish integrity from morality and ethics. Integrity is a purely positive proposition. It has nothing to do with good vs. bad. Think  about the Law of Gravity: there is no such thing as ‘good’ or ‘bad’ gravity; like integrity, it just ‘is’. Morality and ethics, on the other hand, are normative concepts that deal with good or bad. Morality refers to a society’s standards of right and wrong for individuals and groups. Ethics refers to normative values that apply to all members of a group or organization. Thus, both morality and ethics relate to desirable vs. undesirable behaviour.

You define integrity as “what it takes for a person to be whole and complete.” What does this look like in daily life?

An individual is whole and complete when their word is whole and complete, and their word is whole and complete when they honour their word. We can honour our word in one of two ways: first, by keeping our word, and on time; or second, as soon as we know that we won’t keep our word, we inform all parties counting on us to keep our word and clean up any mess that we’ve caused in their lives. When we do this, we are honouring our word despite having not kept it, and we have maintained our integrity.

If you are serious about being a person of integrity, you will think very carefully before giving your word to anyone, and you will never give your word in a way that is mutually inconsistent. When one cannot or will not keep one’s word, this is sure to lead to out-of-integrity behaviour. You will not always be able to keep your word, and that’s alright, but if you are a person of integrity, you will always honour your word.

Integrity is important to individuals, groups, organizations and society because it creates workability. Without integrity, workability declines and so the opportunity for performance. Therefore, integrity is a necessary condition for maximum performance. As an added benefit, honouring one’s word is also an actionable pathway to being trusted by others.

You believe that a key aspect of integrity involves the relationship one has with oneself. Please explain the importance of this.

One’s word to one’s self is a critical part of integrity. The foundation for being a person of integrity is giving your word to yourself (or declaring to yourself) the following. First, “Who I am is my word”, and second, “I give my word to myself that I am a person of integrity.” Without this foundation you will never be a person of integrity.

By failing to honour our word to ourselves, not only do we undermine ourselves as persons of integrity, but we diminish who we are as a person – we are less than whole and complete as a person. Without this aspect of integrity, we create ‘unworkability’ in our lives: we appear to others as inconsistent, unreliable and unpredictable. Unfortunately, people almost universally justify or rationalize the mess in their lives resulting from their personal out-of-integrity behavior. They point to external causes of the  mess in their lives and never acknowledge that the mess arises from their own personal out-of-integrity behavior.

Your Ontological Law of Integrity says that integrity has a critical effect on business: increased performance. How does integrity translate into performance?

As I’ve said, integrity is a necessary condition for maximum performance. That is, if something is in integrity – is whole, complete, unbroken – it has maximum workability. But because it takes more than workability (a product of integrity) alone to realize maximum performance, integrity is not a sufficient condition for maximum performance. As with the gravity analogy, this is just a plain fact: if you attempt to violate the Law of Gravity without a parachute, you will suffer severe consequences. We argue that if you respect the Law of Integrity you will experience enormous increases in performance, both in your organization and in your life.

You believe that the effects of out-of-integrity behaviour are significantly more damaging than most people believe. Please discuss.

People tend to view integrity as a virtue that is ‘nice to have’, but not as something that is directly related to performance. They fail to link the difficulties in their lives or in their organizations to out-of-integrity behaviour. But the increases in performance that are possible by focusing on integrity are huge: I’m not talking about a 10 per cent increase in output or productivity – it’s more like 100 to 500 per cent. At my organization [the Social Science Research Network (SSRN)] after three years of implementing these notions, our CEO Gregg Gordon will tell you that we’ve seen in excess of a 300 per cent increase in output, with essentially no increase in inputs. And our people are happier.

What are the costs of dealing with a person or entity that is out-of-integrity?

Consider the experience of dealing with an object that lacks integrity, such as a car. When one or more of its components is missing or malfunctioning, it becomes unreliable and unpredictable, and it creates those same characteristics in our lives: the car fails in traffic; we inadvertently create a traffic jam; we are late for our appointment; and we disappoint our colleagues. In effect, the out-of-integrity car has created a lack of integrity in our life, with all sorts of fallout and repercussions that reduce workability. The same thing is true of our associations with persons, groups or organizations that are out-of-integrity. These effects generally go unrecognized, but they are significant.

How does ‘cost-benefit analysis’ affect integrity?

This is a great failure of the curriculum of every business school I know: we teach our students the importance of conducting a cost/benefit analysis in everything they do. In most cases, this is useful – but not when it comes to behaving with integrity. In fact, treating integrity (i.e. honouring your word) as a matter of cost/benefit analysis virtually guarantees that you will not be a person of integrity. When not keeping my word, if I apply a cost/ benefit analysis to honouring my word, I am either out-of-integrity to start with – because I have not stated the cost/benefit contingency that is in fact part of my word when I give it, or to have integrity I must say something like the following: “I will honour my word when it comes time to do so if the costs of doing so are less than the benefits.” Such a statement, while technically leaving me with integrity, is unlikely to engender trust. Indeed, I have just told you that my word means nothing.

If I had one recommendation for improvement to the curriculum of every business school, it would be to make it very clear to students that cost/benefit analysis is very important almost everywhere in life – but not with respect to honouring one’s word. In my view, this is a major root cause of the current economic crisis.

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| **‘One’s Word’, Defined**A person’s word consists of each of the following:What you said: whatever you have said you will do or will not do, and in the case of do, doing it on time.What you know: whatever you know to do or know not to do, and in the case of do, doing it as you know it is meant to be done and doing it on time, unless you have explicitly said to the contrary.What is expected: whatever you are expected to do or not do (even when not explicitly expressed), and in the case of do, doing it on time, unless you have explicitly said to the contrary.What you say is so: whenever you have given your word to others as to the existence of some thing or some state of the world, your word includes being willing to be held accountable that the others would find your evidence for what you have asserted also makes what you have asserted valid for themselves.What you say you stand for: What you stand for, whether expressed in the form of a declaration made to one or more people, or even to yourself, as well as what you hold yourself out to others as standing for (formally declared or not), is a part of your word.The social moral standards, the group ethical standards and the governmental legal standards of right and wrong, good and bad behaviour in the society, groups and state in which one enjoys the benefits of membership are also part of one’s word unless a) one has explicitly and publicly expressed an intention to not keep one or more of these standards, and b) one is willing to bear the costs of refusing to conform to these standards. |

Trust in the business community has plummeted in recent months. What has to happen for it to be restored?

Out-of-integrity behaviour has been pervasive, both on an organizational and an individual basis. Looking at the subprime mortgage crisis, each element of the system evolved in a way that left it out-of-integrity: the system ended up such that people were rewarded for creating and selling mortgages and mortgage-backed securities, but not mortgages and mortgage-backed securities that would be paid. Obviously such a system lacked integrity, and we are paying a very steep price.

Putting the system back in order is deceptively simple: people have to start honouring their word. If they do, trust will materialize almost instantly. The interesting thing about it is that you actually create trust more rapidly if you fail to keep your word but you honour it, because this is always so surprising to people. If you’re straight with people – “I told you that I’d have this report done a month from now, but I know now that I’m not going to be able to and I apologize, but I’ll get it to you in a month and a half. Let’s have a talk about what I can do to clean up the mess I have caused for you.” If I then get the report to you in a month and a half, our relationship will be strengthened; but if I simply don’t keep my original word, trust will be lost.

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| **Integrity of an Organization, Defined**An organization (or any human system) is in integrity when:It is whole and complete with respect to its word. This includes that nothing is hidden, no deception, no untruths, no violation of contracts or property rights, etc.That is to say, an organization honours its word:Internally, between members of the organization, andExternally, between the organization and those it deals with. This includes what is said by or on behalf of the organization to its members as well as outsiders. |

Can you give an example in which honouring one’s word is important in business?

There are great examples of service failures that have turned out positive. Bitner, Booms and Tetrault in their study “The Service Encounter: Diagnosing Favorable and Unfavorable Incidents,” (Journal of Marketing, 1990) found that 23.3% of “memorable satisfactory encounters” involve difficulties attributable to failures in core service delivery. This finding is striking. It suggests that even service delivery system failures can be remembered as highly satisfactory encounters if they are handled properly.

They give the following example: a husband and wife had a reservation for a hotel room. When they arrived at the hotel, it was completely filled through no fault of the hotel – people just hadn’t checked out as planned. Unfortunately, the hotel staff wasn’t able to find the couple another room in the city, so they failed to keep their word. But they did honour it: they took a small dining room in the hotel, put in some cots and pillows and bedding and made a bedroom out of it. In the end, the family rated this as one of their outstanding service experiences.

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**INTEGRITY: A POSITIVE MODEL THAT INCORPORATES THE NORMATIVE PHENOMENA OF
MORALITY, ETHICS, AND LEGALITY – ABRIDGED**

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**Abstract and Summary**

We present a positive model of integrity that, as we distinguish and define integrity, provides powerful access to increased performance for individuals, groups, organizations, and societies. Our model reveals the causal link between integrity and increased performance, in whatever way one chooses to define performance (for example, quality of life, or value-creation for all entities), and provides access to that causal link. Integrity is thus a factor of production as important as knowledge and technology. Yet the major role of integrity in productivity and performance has been largely hidden or unnoticed, or even ignored by economists and others.

The philosophical discourse, and common usage as reflected in dictionary definitions, leave an overlap and confusion among the four phenomena of integrity, morality, ethics, and legality. This overlap and confusion confound the four phenomena so that the efficacy and potential power of each is seriously diminished.

In this new model, we distinguish all four phenomena – integrity, morality, ethics, and legality – as existing within two separate realms. Integrity exists in a positive realm devoid of normative content. Integrity is thus not about good or bad, or right or wrong, or what should or should not be. Morality, ethics and legality exist in a normative realm of virtues (that is, they are about good and bad, right and wrong, or what should or should not be). Furthermore, within their respective realms, each of the four phenomena is distinguished as belonging to a distinct and separate domain, and the definition of each as a term is made clear, unambiguous, and non-overlapping.

We distinguish the domain of integrity as the objective state or condition of an object, system, person, group, or organizational entity, and, consistent with the first two of the three definitions in Webster’s dictionary, define integrity as a state or condition of being whole, complete, unbroken, unimpaired, sound, perfect condition.

We assert that integrity (the condition of being whole and complete) is a necessary condition for workability, and that the resultant level of workability determines for an individual, group, or organization the available opportunity set for performance. Hence, the way we treat integrity in our model provides an unambiguous and actionable access to the opportunity for superior performance, no matter how one defines performance.

For an individual we distinguish integrity as a matter of that person’s word being whole and complete. For a group or organizational entity we define integrity as that group’s or organization’s word being whole and complete. A group’s or organization’s word consists of what is said between the people in that group or organization, and what is said by or on behalf of the group or organization. In the context of integrity being a matter of a human entity’s word being whole and complete, we define integrity for an individual, group, or organization as: honoring one’s word.

Oversimplifying somewhat, “honoring your word”, as we define it, means you either keep your word, or as soon as you know that you will not, you say that you will not be keeping your word to those who were counting on your word and clean up any mess you caused by not keeping your word. By “keeping your word” we mean doing what you said you would do and by the time you said you would do it.

Honoring your word is also the route to creating whole and complete social and working relationships. In addition, it provides an actionable pathway to earning the trust of others. Perhaps most importantly, it provides an actionable pathway to being whole and complete with oneself, or in other words to being an integrated person.

We demonstrate that applying cost-benefit analysis to honoring your word guarantees that you will be untrustworthy. And that, with one arcane exception, you will not be a person of integrity, thereby reducing both the workability of your life and your opportunity for performance. The one arcane exception to this conclusion is the following: if when giving your word you announce that you will apply cost-benefit analysis to honoring your word you will maintain your integrity, but you also will have announced that you are an unmitigated opportunist. The virtually automatic application of cost-benefit analysis to one’s integrity (an inherent tendency in most of us) lies at the heart of much out-of-integrity and untrustworthy behavior in modern life.

Regarding the relation between integrity and the three virtue phenomena of morality, ethics and legality, this new model: 1) encompasses all four terms in one consistent theory, 2) makes clear and unambiguous the “moral compasses” potentially available in each of the three virtue phenomena, and 3) by revealing the relation between honoring the standards of the three virtue phenomena and performance (including being complete as a person and the quality of life), raises the likelihood that the now clear moral compasses can actually shape human behavior. This all falls out primarily from the unique treatment of integrity in our model as a purely positive phenomenon, independent of normative value judgments.

In summary, we show that defining integrity as honoring one’s word (as we have defined “honoring one’s word”): 1) provides an unambiguous and actionable access to the opportunity for superior performance and competitive advantage at the individual, organizational and social levels, and 2) empowers the three virtue phenomena of morality, ethics and legality.

**1. A NEW MODEL OF INTEGRITY**

**A. INTEGRITY: PROLOGUE**

What follows is our new model of integrity. We began our effort to clarify the nature of integrity by researching its common usage as it appears in dictionaries, and by examining the philosophical discussion on integrity. In both cases, as we will later show, we found confusiona nd confounding between integrity, morality, and ethics. We chose first to see if it was possible to eliminate the confusion and confounding amongst those three terms, while accounting for the essence of the common usage definitions and the important elements of what philosophy says about integrity. At the same time we avoided inventing any new definitions.

Our aim in settling on our definitions of each of the three terms was to honor the general common usage and philosophical meaning of each of the terms, while at the same time eliminating the confusion and confounding amongst them.

**B. INTEGRITY: DEFINITION**

In Webster’s New World Dictionary “integrity” is defined as: “1. the quality or state of being complete; unbroken condition; wholeness; entirety; 2. the quality or state of being unimpaired; perfect condition; soundness; and 3. the quality or state of being of sound moral principle; uprightness, honesty, and sincerity”.

As with the definitions of morality and ethics, including “sound moral principle in the definition of integrity (definition 3 in Webster’s definition above) confounds and confuses the distinction between each of these three phenomena. In our new model, the definition of integrity specifically does not include Webster’s definition 3, “the quality or state of being of sound moral principle; uprightness, honesty, and sincerity”. While the virtue phenomena mentioned in definition 3 are not included in our definition of integrity, the way integrity is treated in our new model does prohibit false statements.

As we have said, in our new model the three phenomena of morality, ethics, and legality are normative virtue phenomena, and integrity is not. Integrity as we distinguish it is a purely positive phenomenon, independent of normative value judgments. Integrity is thus not about good or bad, or right or wrong, or even about what should be or what should not be.

In this new model of integrity, “integrity” exists in the positive realm, and within that realm its domain is one of the objective state or condition, and within that domain we define “integrity” as: a state or condition of being whole, complete, unbroken, unimpaired, sound, perfect condition. Hereafter we sometimes use the term “whole and complete” to represent this entire definition.

In this new model of integrity, “legality” exists in the normative realm, and within that realm legality is in the governmental virtue domain, and within that domain we define legality as a term as: the system of laws and regulations of right and wrong behavior that are enforceable by the state (federal, state, or local governmental body in the U.S.) through the exercise of its policing powers and judicial process, with the threat and use of penalties, including its monopoly on the right to use physical violence.

**2. THE INTEGRITY OF OBJECTS AND SYSTEMS, AND THE UNIVERSAL CONSEQUENCES OF DIMINISHED INTEGRITY**

**A. INTEGRITY OF AN OBJECT**

In this new model, we distinguish integrity for objects and systems as being a matter of the components that make up the object or system and the relationship between those components, and their design, the implementation of the design, and the use to which they are put. For an object or system to have integrity all of the foregoing must fit our definition of integrity (be whole, complete, unbroken, unimpaired, sound, perfect condition).

Consider a bicycle wheel as an example of an object and its integrity. As we remove spokes from the bicycle wheel, the wheel is no longer whole and complete. Because the wheel is no longer whole and complete, the integrity of the wheel is diminished.

**B. WORKABILITY**

As a consequence of the diminution of the integrity of the wheel (a diminution of whole and complete), there is an obvious corresponding diminution in the workability of the wheel. The Oxford Dictionary defines workable as: “Capable of producing the desired effect or result.”

In this new model of integrity, we define workability as: the state or condition that determines the available opportunity for performance (the “opportunity set”).

As we remove spokes from the wheel, integrity is more and more diminished, and as integrity is more and more diminished, the wheel becomes less and less workable. Indeed, when we have removed enough spokes the wheel has no integrity and therefore the wheel collapses into complete failure and will not work at all.

In short we assert the following simple, general rule: As integrity declines, workability declines, and when workability declines the opportunity for performance (the opportunity set) declines.

**C. PERFORMANCE**

We mean the word “performance” in its broadest sense and leave the choice of definition and measures of performance up to individuals or organizational entities – for example for organizations: profits or value creation; or for societies: concerns about environment, peace, or quality of life; or for individuals: being whole and complete as a person, the quality of one’s life, happiness, or the welfare of one’s children.

In effect, integrity as we distinguish and define it is an important factor of production (using the language of economists) comparable to knowledge and technology. Our model reveals the causal link between integrity and the available opportunity for performance (the opportunity set) for individuals, groups and organizations. And, our model provides actionable access to that causal link to individuals, families, executives, economists, philosophers, policy makers, leaders, and legal and governmental authorities. Revealing the causal link between integrity and performance makes clear what is currently obscured, namely, as integrity declines the available opportunity for performance declines – however one wishes to define performance5. As we will see below, this is an empirically testable proposition.

What is the relationship of integrity and performance? We can now complete our definition of workability to include the definition of “performance” (the final word used in the definition of workability). We define “workability” as: the state or condition that constitutes the available opportunity for something or somebody or a group or an organization to function, operate or behave to produce an intended outcome, i.e., to be effective; or the state or condition that determines the opportunity set from which someone or a group or an organization can choose outcomes, or design or construct for outcomes.

In our bicycle wheel example, we saw that as a consequence of the diminution of integrity there is a diminution in the workability of the wheel. Now we see that as a consequence of the diminution of the workability of the wheel, there is a corresponding diminution in the opportunity for performance. As spokes are removed the integrity of the wheel is diminished. And, as the integrity of the wheel is diminished the workability of the wheel is diminished. And, as the workability of the wheel is diminished, the opportunity for performance is diminished.

Thus, there is a cascade beginning with integrity, flowing to workability, and from workability to performance. As a result of this cascade, any diminution of whole and complete (a diminution of integrity) is a diminution of workability, and any diminution of workability is a diminution in the opportunity for performance. Integrity is thus a requisite condition for maximum performance.

There is a clear and unambiguous relationship between integrity and performance. It is not that performance is caused by integrity, rather integrity is a necessary condition for performance. More rigorously, as integrity declines so too does the opportunity set for performance available to the actor or decision maker. Hence we speak about the available opportunity set for performance. Integrity is thus a necessary (although not sufficient) condition for performance. Some level of integrity is required for any level of performance. For example, as we said, when enough spokes are removed from the bicycle wheel, the wheel collapses and there is no opportunity for performance.

In short, we assert the following simple, general rule: ceteris paribus (all other things held constant), as integrity declines, the opportunity for performance declines.

As is the case with the physical laws of nature (such as gravity), integrity as we have distinguished and defined it operates as it does regardless of whether one likes it or not (the question regarding how one might know something is whole and complete or not is entirely separable from its being so or not, and separable from the impact on performance of its being so or not.) Something is objectively whole, complete, unbroken, sound, perfect condition, or it is not. If it is, it has maximum workability. If it is not, to the degree that it is not, workability is diminished. And, to the degree that workability is diminished, the opportunity for performance is diminished. This yields what we have termed “the ontological law of integrity” – namely, to the degree that integrity is diminished, the opportunity for performance (the opportunity set) is diminished.

And this includes the opportunity for being whole and complete as a person, thus enriching the quality of one’s life.

In order to reach the standard of being a law, a proposition must describe the workings or behavior of something, the stated workings or behavior of which are observed with unvarying uniformity under the same conditions. We believe that our Ontological Law of Integrity meets this standard, while recognizing that the required formal empirical evidence has yet to be generated.

The impact on performance of the integrity of the design (hereafter sometimes, “integrity-of-design”), the integrity of the execution or implementation of the design (integrity of implementation), and the integrity of the use, both the use to which it is put and its operation (hereafter sometimes, “integrity-of-use), of an object is discussed just below in the section on systems.

We include in the domain of objects, objects that are wholly human, for example a person’s body. If the condition of a person’s body is less than whole, complete, unbroken, unimpaired, sound, perfect condition, then that person’s body is diminished in physical integrity. As a body, this individual will have a diminished available opportunity for performance. However, the person, while diminished in physical integrity and therefore diminished in the available opportunity for physical performance, may at the same time be in full integrity as a person, as we will see in the unique way we distinguish integrity for a person.

**D. SYSTEMS**

All of the foregoing is also true for systems. The opportunity for performance of a system to any standard of performance for which the system is designed diminishes as the integrity of any component, or relationship between components, necessary to the designed standard of performance is diminished, i.e., is less than whole and complete. We see a repeat of the cascade from integrity to performance.

When the integrity of any necessary component or necessary relationship between components of a system diminishes (that is, becomes less whole and complete, including being absent entirely), the workability of the system diminishes, and as the workability of the system diminishes, the opportunity for performance to the designed standard of performance of that system diminishes. Thus again we see that, ceteris paribus, as the integrity of a system declines, the available opportunity for performance of that system declines – an empirically testable proposition.

Other ways that the integrity of a system (or object) can be compromised and thereby result in diminished performance is when the design itself or the implementation of the design lacks integrity. When the design of a system or the implementation of the design lacks any component, or relationship between components, required to perform at the designed-for available opportunity for performance, the design or its implementation is less than whole and complete and that violates the definition of integrity.

Finally, the integrity of a system (or object) can be compromised and thereby result in diminished performance when the operation (use) of the system by the user lacks integrity. When a system is used to produce performance where the design does not allow for such performance, the system is being used other than as it is meant to be used and such use is unsound, and that violates the definition of integrity. (For example, if a user, a man of 300 pounds, attempts to save his life with a life preserver flotation device designed to be used by a child of 50 pounds, he will drown unless he can swim. In addition, if he were to use a life preserver flotation device designed to be used by a man of 300 pounds, but he ties it around his ankles, the user’s operation of the system is unsound, he will die.) We note that the likelihood of an out-of-integrity use of a system rises in proportion to the degree that the user of the system is out of integrity as a person.

Our model says nothing about the standard of performance to which a system is designed; that definition is left totally to the discretion of the designer or to the design standard specified by, or agreed to by, the user (be it a person, group or organization).

We include in the domain of systems (including what we have said about the integrity of systems), 1) aspects of systems that are used by people (for example operating instructions or manufacturing protocols), 2) systems that impact people (for example corporate human resource strategies), and 3) systems that utilize people (for example business processes and manufacturing processes). As with human objects, if such systems that include people in some way are less than whole, complete, unbroken, unimpaired, sound, perfect condition, then that human-including-system is diminished in integrity. As a system, the system will have a diminished available opportunity for performance. However, the people using the system, or impacted by the system, or utilized by the system, while confronted with a system diminished in system integrity and therefore diminished in the available opportunity for system performance, may at the same time be in full integrity as persons --- as will be clear in the way we distinguish integrity for persons, groups, and organizational entities. Conversely, if the entire system is otherwise in integrity, but one or more humans who are a part of the system are personally out of integrity the system is likely to be out of integrity as well.

In summary, the available opportunity set for performance of a system is conditional on the integrity of the components and relationship between components necessary to the designed standard of performance, and the integrity-of-design, and the integrity-of-use.

**3. INTEGRITY FOR A PERSON INTEGRITY FOR PERSONS, GROUPS AND ORGANIZATIONS**

We distinguish integrity for an individual as being solely a matter of that person’s word, and for a group or organizational entity as being comprised solely of what is said by or on behalf of the group or organization (the group or organization’s word). (In the body of the paper below we define explicitly and completely what constitutes “one’s word.”) For a person, group or organizational entity to have integrity, the word of the person, group or organizational entity must be whole, complete, unbroken, unimpaired, sound, perfect condition. In our new model this is achieved by: honoring one’s word.

**A. INTEGRITY FOR A PERSON IS A MATTER OF THAT PERSON'S WORD**

In this new model, integrity for a person is a matter of that person’s word, nothing more and nothing less. Be it my word to myself (e.g., making a promise to myself, or a comment to myself about myself), or my word to others, in fact it is my word through which I define and express myself, both for myself and for others.

Even in the case where my “actions speak louder than words”, it is what is said by my actions (the speaking of the actions, rather than the actions per se) that constitutes and expresses me, for myself and for others. It is as my word that others encounter me. And, while less obvious, it is also as my word (to others as well as to myself) that I encounter myself. Indeed, in this new model, who I am is my word, at least in the matter of integrity. Because of its importance we discuss this proposition in some detail.

**B. ONE'S WORD DEFINED**

In this new model of integrity, we define a person’s word as consisting of each of the following:

Word-1. What You Said: Whatever you have said you will do or will not do, and in the case of do, by when you said you would do it.

Note A – Requests Of You Become Your Word Unless You Have Timely Responded To Them: When you have received a request, you may accept, decline, make a counter offer, or promise to respond at some specific later time. If you do not timely respond to a request with a decline, counter offer, or promise to respond at some specific later time (which promise you timely honor), you have in effect accepted (given your word to) that request.

Note B – In Contrast, Your Requests Of Others Do Not For You Become Their Word When They Have Not Responded In A Timely Fashion: The efficacy of this asymmetry is explained below in Section D, Clarification of One’s Word-3, Note.

Word-2. What You Know: Whatever you know to do or know not to do, and in the case of do, doing it as you know it is meant to be done and doing it on time, unless you have explicitly said to the contrary.

Word-3. What Is Expected: Whatever you are expected to do or not do (even when not explicitly expressed), and in the case of do, doing it on time, unless you have explicitly said to the contrary.

Note – In Contrast, Your Expectations Of Others Are Not For You The Word Of Others: What you expect of others and have not explicitly expressed to them is not part of their word as defined in this new model. Only those expectations you have of others that you have made clear to them by a request is part of their word (unless they decline or counter-propose your request).

Word-4. What You Say Is So: Whenever you have given your word to others as to the existence of some thing or some state of the world, your word includes being willing to be held accountable that the others would find your evidence for what you have asserted also makes what you have asserted valid for themselves.

Word-5. What You Stand For: What you stand for is fundamental to who you are for yourself and who you are for others. What you stand for is a declaration constituted by 1) who you hold yourself to be for yourself as that for which you can be counted on from yourself (whether specifically articulated by you or not), and 2) who you hold yourself out to be for others as that for which you can be counted on by others (or have allowed others to believe as that for which you can be counted on). The importance of this aspect of one’s word in the matter of integrity is pointed to by Cox et al in the Stanford Encyclopedia of Philosophy who devote an entire section to “Integrity as Standing for Something”.

Word-6. Moral, Ethical And Legal Standards: The social moral standards, the group ethical standards and the governmental legal standards of right and wrong, good and bad behavior, in the society, groups and state in which one enjoys the benefits of membership are also part of one’s word (what one is expected to do) unless a) one has explicitly and publicly expressed an intention to not keep one or more of these standards, and b) one is willing to bear the costs of refusing to conform to these standards (the rules of the game one is in).

Note that what we have defined here is what constitutes a “person’s word” – not what constitutes integrity for a person, which is explicitly defined below.

**D. CLARIFICATIONS OF "ONE'S WORD" AS DEFINED ABOVE**

Word-1. Most people will not have a problem with Word-1 (their word being constituted by that to which they have given their word). Many people will have a problem in Word-1 with Note B: Your Requests Of Others Do Not For You Become Their Word When They Have Not Responded In A Timely Fashion. Assuming that the non-response of another to your request is an acceptance on their part invites a breakdown in workability and a consequential decline in the opportunity for performance. Where another has not timely responded to your request, you avoid the chance of such a breakdown if you hold yourself accountable for obtaining a response

Word-2. Some people may have a problem with Word-2 (their word also being constituted by what they know to do and doing it as it was meant to be done), because there might be situations in which they don’t know what to do, or may not know how it is meant to be done. If one does not know what to do, and one does not know that one does not know what to do, that does not fit the definition of one’s word as stated in Word-2, (doing what you know to do). However, if one does not know what to do and one knows that one does not know, that does fit the definition of one’s Word-2, and explicitly saying that one does not know what to do would be a part of one’s word, otherwise the other would be left with the belief that one does know what to do. Likewise with knowing how it is meant to be done.

Word-3. Many people will have a problem with their word being constituted by Word-3 (whatever is expected of them unless they have said to the contrary). Of course if someone has expressed his or her expectation of me, I can accept, decline or counteroffer that expectation – no problem with that. It is being obligated by expectations that have not been expressed explicitly, and certainly those about which one is unaware, with which many people will have a problem. When these are also considered as being part of one’s word, it occurs for many as wrongful that one should be burdened by the unexpressed expectations that others have of one. There are six points to be considered.

Suppose someone has an expectation of another. Even if one is unaware of the expectation, if that expectation is not met, like it or not, the outcome is much the same as having given one’s word and not kept that word; specifically, workability declines, and consequently the opportunity for performance declines.

For better or for worse, what is expected of one is expected of one; in life there is no escaping expectation. And if there is an expectation (even if you are unaware of that expectation), and you do not either meet that expectation or uncover it and explicitly declare that you will not meet it, there will be a breakdown and workability will decline. As with an object or system, when a relationship is less than whole and complete, workability declines, and consequently the opportunity for performance declines.

The notion of it being wrong or right (or bad or good, or unfair or fair) that you are affected by the unannounced expectations of others is a normative value judgment, and in this new model of integrity, integrity is devoid of such normative value judgments. Whether you like it or not is irrelevant from the standpoint of integrity, workability, and performance. Given the obvious impact of unmet expectations on the workability of relationships, when you recognize that the expectations of others matter and you take all expectations of others as part of your word unless you have explicitly declared you will not meet them, your integrity will increase, the workability of your life will increase, and your opportunity for performance will be greater. It all follows, willy-nilly (i.e. willingly or unwillingly).

In light of the above three points, it follows that for a person’s word to be whole and complete and to thereby create a life with high workability and high performance, one has to be “cause in the matter” of what is expected of one. By taking the position (a declaration, not an assertion10) that I am cause in the matter of what people expect of me, I am then led to be highly sensitive, and motivated to ferret out those expectations and to take action to manage them. And if I am straight with those who have expectations that I will not fulfill, my word will be intact, life will have higher workability, and my performance (however defined) will be greater.

While we are still defining a person’s word and have not yet gotten to defining integrity for a person, as you will see below when we do, when declining an expectation of you, you do not have to deal with any mess that arises as a result of your decline, given that expectations of you are your word only if you have failed to decline them. Note that there may well be a mess as a result of your decline. You may well choose to do something to deal with the mess that results from the decline but this is not a matter of keeping your word whole and complete and is therefore not a matter of your integrity to do so.

In summary, one’s word as we have defined it in this new model is not a matter of being obligated or not (or even of being willing or not willing) to fulfill the expectations of others; if there is an expectation, there is an expectation, and if you do not fulfill the expectation and have not said that you will not fulfill the expectation the consequence on workability and performance is the same as that to which you have explicitly given your word. And this is true even though you do have a justification for not fulfilling the expectation. For example, like it or not a person’s performance is often judged against expectations, even if that person has never agreed to, or was not even aware of, those expectations. Thus, to create workability with those with whom you desire to have a relationship you must clean up any mess created in their lives that result from their expectations of you that you do not meet and that you have not explicitly declined. This is what it means to take yourself to be cause in the matter of expectations of you.

Word-3 Note. Your Expectations Are Not The Word Of Others: There is an asymmetry here: As we said above, your word includes the unexpressed expectations of others unless you formally decline them; yet your unexpressed expectations are not the word of others. Thus you cannot hold others accountable for fulfilling your unexpressed expectations. Indeed, holding others accountable for fulfilling your unexpressed expectations will result in a diminution of workability and performance, a consequence of your being out of integrity. This asymmetry – in effect an instance of “what’s good for the goose is not good for the gander” – is required to be whole and complete with oneself and with others.

Word-4. With respect to Word-4, some people will have a problem that one’s word as to the existence of some thing or some state of the world includes being accountable that the other would find valid for themselves the evidence that one had for asserting something to be the case. Of course there are times when one says that this or that is so, or not so, but one would not be willing to be held to account for having evidence that the other would find valid. In such cases, one’s word would include acknowledging that, and perhaps saying what level of evidence one does have: for example when one “believes” that something is the case.

Word-5. What You Stand For: It is important to be aware that what you stand for is essentially a matter of who you say you can be counted on to be for yourself (whether specifically articulated by you or not), and who you say that others can count on you to be for them (whether specifically declared or not). The explicit content of what you stand for is not a matter of your integrity. However, the impact on who you are for yourself and the impact on who you are for others is determined by the nature of what you stand for. And, to a large extent the magnitude of what you stand for determines your opportunity set for performance in the world, with others, and with yourself.

Word-6. In Section 7.B. [of the full document] we explicate in detail the arguments that lead to the proposition that moral, ethical and legal standards are a part of one’s word. It suffices here to recognize that Word-6 re-contextualizes the moral, ethical and legal standards of the society, group and governmental entities in which one enjoys membership from something inflicted on me – someone else’s will or in the language of this new model “someone else’s word” – to my word, thus, leaving me with the power to honor my word, either by keeping it, or saying I will not and accepting the consequences.

**E. INTEGRITY IS HONORING ONE'S WORD**

Notice that we did not say that integrity is a matter of keeping one’s word; we said that integrity is honoring one’s word.

In this new model of integrity we define honoring your word as:

Keeping your word (and on time).

And, whenever you will not be keeping your word: Just as soon as you become aware that you will not be keeping your word (including not keeping your word on time) saying to everyone impacted that you will not be keeping your word, and that you will keep that word in the future, and by when, or that you won’t be keeping that word at all, and what you will do to deal with the impact on others of the failure to keep your word (or to keep it on time).

Notice that “honoring your word” includes two conditions, where the second condition comes into play whenever the first condition is not met. Integrity is an “and” proposition. In other words, to be a person of integrity all you have to do is “honor your word”, which means you keep your word (1 above), and when you will not, then you say you will not and clean up any consequences (2. a, b and c above).

However, we have found it useful for discussions regarding the impact of integrity to sometimes use “honoring your word” in another way. While we want to emphasize that strictly speaking integrity for human entities is honoring their word as specified above, when speaking about the consequences of integrity we will sometimes speak as though integrity is an “either/or” proposition where you either “keep your word” (1 above), or you “honor your word” (2. a, b and c above). We have not yet found a situation, where in context, the way we are using “honor your word” is ambiguous.

**F. THE IMPOSSIBILITY OF ALWAYS KEEPING ONE'S WORD**

A person who always keeps their word is almost certainly living a life that is too small. Thus, unless you are playing a small game in life, you will not always keep your word. However, it is always possible to honor your word. Integrity is honoring your word.

While always keeping your word may not be possible, honoring your word as we have defined honoring in our new model of integrity is always possible. Therefore, it is always possible to have integrity, that is, to be whole and complete as a person. Having integrity is a simple although not always easy matter of honoring your word.

The state of being whole, complete, unbroken, unimpaired, sound, perfect condition is our definition of integrity, but that definition says nothing about the pathway, or what one can or must do to create, maintain or restore integrity. Because honoring your word is the pathway to integrity it gives us access to integrity; it is actionable. In other words, you can’t “do” whole and complete, you can “do” honor your word, and honoring your word leaves you whole and complete. This is what we mean when we say a proposition is “actionable”.

It is worth repeating that integrity, as distinguished in this new model, is independent of normative value judgments. While one can have a normative value judgment regarding whether or not one likes integrity as distinguished in this new model (as one can have a normative value judgment about whether or not one likes gravity), the effect of integrity on performance is a positive (empirical) proposition. And to emphasize the point, the purely positive nature of integrity is independent of whether you believe honoring your word is a good or a bad thing. That is, the consequences of honoring or not honoring your word are independent of whether you believe it is a good or bad thing. We mean by this, that ceteris paribus, the closer a person, group, or entity is to full integrity, the larger will be the opportunity set for performance available to the entity. Moreover, since we have said nothing about how performance is defined or measured, our model of integrity is free of value judgments regarding what performance is. Integrity has no virtue value as we are defining it. Indeed, some might choose to give their word to what we might judge to be dishonorable activities or goals – “honor amongst thieves” for example.

The integrity mountain has no top, so you better learn to love climbing. Makes it OK to recognize that one is not a person of “integrity”.

Our proposition is that whatever it is you are committed to, you maximize the opportunity for success if you honor your word. [In the full document, we emphasize the fact that in this new model of integrity, your word includes the ethical, moral and legal standards of the groups or entities in which you enjoy the benefits of membership (unless you have already publicly expressed that you will not keep one or more of these standards, and you willingly bear the consequences of not doing so). And, we discuss how treating integrity as a positive phenomenon increases the likelihood that individuals will honor their word regarding the standards of the virtue phenomena. Thus, individuals’ efforts to behave with integrity (as we distinguish integrity in this new model) support morality, ethics and legality in their lives.]

**G. MAINTAINING ONE'S INTEGRITY WHEN NOT KEEPING ONE'S WORD — PARADOX RESOLVED**

Unless we give our word to virtually nothing, it is impossible in practice to always be able to keep our word, and certainly to keep our word on time. If integrity is understood to be keeping one’s word (as it often is), this creates a paradox for a person of integrity when confronted with instances where it is impossible or inappropriate for that person to keep his or her word. Faced with this paradox even people committed to integrity often wind up engaging in out-of-integrity behavior such as avoiding the issue, or engaging in long-winded explanations in an attempt to somehow counter-balance not keeping their word. And such efforts sometimes extend to what turns out to be highly counter productive out-of-integrity behavior, e.g., lying, covering up, or laying the blame on others.

There is a high personal cost to oneself from such out-of-integrity behavior – that is, the cost of being less than whole and complete as a person (a disintegration of self) – combined with an inevitable decline in quality of life, not to mention the loss of trust. However, that the out-of-integrity behavior is the source of this cost is inevitably hidden. [In Section 8 of the full document we define and discuss at length what we term the “veil of invisibility”11 that conceals the impact of virtually all out-of-integrity behavior and the costs it imposes on individuals, groups, organizations, and societies. We summarize that discussion in Appendix A below.]

By defining integrity for persons, groups and entities as honoring one’s word, the paradox is resolved, and a pathway is established for handling not keeping one’s word with integrity.

There will also be cases where an entity will choose not to keep its word. For example, one of the functions of a governmental authority in a well-developed society is to maintain a monopoly over the legitimate use of violence to protect the rights of citizens, in particular to protect them from violent acts by their fellow citizens including bodily harm or theft of or damage to their property. The commitment to use the government’s monopoly on violence to maintain peace by preventing the private use of violence by citizens on each other can be understood as the state’s word. Yet, in some cases it pays both the state and its citizens for the state to use its monopoly on violence on citizens in cases where violence of others is not being prevented. Consider cases like mad cow and avian flu diseases where it is considered appropriate for the governmental authority to use its powers to destroy herds or flocks in order to stamp out local infections so as to prevent the spread of disease and the loss of human life. In some, but not all, cases the rules of the game will provide for compensation for the loss of property by such actions (as for example in cases of eminent domain where a public taking is ruled to be in the overall public interest).

There will also be cases in which we simply make a choice to not keep our word. For example, in a situation where when it comes time to keep our word, we are faced with two conflicting commitments and must choose one over the other. In such cases, whether as an individual, group or organizational entity, maintaining integrity always requires one to clean up the mess one has caused for those depending on one’s word.

The above examples help us see that a great deal of the mischief that surrounds integrity is a product of the paradox created by limiting the definition of integrity to keeping one’s word in a reality in which it is not always possible or appropriate to keep one’s word. By defining integrity for individuals, groups and organizations as honoring one’s word we resolve this paradox that undermines the power of integrity. Honoring our word provides the opportunity to maintain our integrity when it turns out that it is not possible or appropriate to keep our word, or we simply choose not to keep our word. (There is a useful parallel/application of this principle in the law. Lucian Bebchuk pointed out to us in a private communication that “The idea that integrity does not require keeping one’s word no matter what [relates] to Oliver Wendell Holmes’ notion that a contract is not a promise to execute it no matter what, but rather to execute it or bear the financial consequences stipulated by the law”.)

In his early insightful work Simons (1999) quite rightly emphasizes “behavioral integrity” as “É the perceived degree of congruence between the values expressed by words and those expressed through action,” (p. 90) and points to the importance of what he terms “word-action” misfit. Simons’ paper “. . . proposes that the divergence between words and deeds has profound costs as it renders managers untrustworthy and undermines their credibility and their ability to use their words to influence the actions of their subordinates.” We agree, and find his statement a clear illustration of what we said earlier, namely, that as the integrity of one’s word declines, the available opportunity for performance declines.

Simons points at the critical distinction that integrity for a person is a matter of that person’s word. However, as an example of the almost universal treatment of integrity, Simons defines integrity as keeping one’s word, but our model does not. In order for “the perceived degree of congruence between the values expressed by words and those expressed through action,” to be an effective model of integrity, the model must provide an opportunity to maintain one’s integrity in situations in which one cannot keep one’s word or makes a choice to not keep one’s word (a condition that Simons also implies is necessary but does not state in his discussion). As we said above, there are cases where because of the complexities of the situation or external factors, it is not always optimal or appropriate for managers (indeed all individuals) to keep their word.

Our concept of integrity as Honoring One’s Word provides a complete model that includes a way to maintain integrity when one is for any reason not going to keep one’s word. When one honors one's word exactly as we define it in the sections above, (including dealing with the consequences to others of not keeping one’s word) there are none of the “profound costs” that Simons rightly associates with not being able to keep one's word.

In fact failing to keep one’s word but fully honoring that word can generate substantial benefits in that such behavior provides a vivid signal to others that one takes one’s word seriously. In their Journal of Marketing study of favorable and unfavorable incidents in service encounters in the airline, restaurant and hotel businesses, Bitner, Booms, and Tetreault (1990, pp. 80-81) were surprised to find, (using our language) the power of honoring one’s word when one does not keep one’s word. Their study revealed that 23.3% of the

“ . . . ‘memorable satisfactory encounters’ involve difficulties attributable to failures in core service delivery. . . From a management perspective, this finding is striking. It suggests that even service delivery system failures can be remembered as highly satisfactory encounters if they are handled properly. . . One might expect that dissatisfaction could be mitigated in failure situations if employees are trained to respond, but the fact that such incidents can be remembered as very satisfactory is somewhat surprising.”

We are not surprised by the favorable response of customers to such “properly handled” service failures; in fact, from the perspective of our new model such outcomes are predictable. While apparently counter intuitive, customers are frequently surprised and delighted when individuals or organizations honor their word when they have failed to keep their word. Indeed, such occasions are often viewed by customers as extraordinary performance. In fact, when the failure is newsworthy, the actions the organization takes to honor its word are also newsworthy. Thus, the results of the Bitner, Booms, and Tetreault study illustrate our postulated relation between integrity and performance – in this case performance as viewed by the organization’s customers. And the results imply (counter to the arguments of Simons and others) that one will create trust by others more quickly when one fails to keep one’s word, but honors one’s word.

**H. INTEGRITY AS THE INTEGRATION OF SELF**

In the Stanford Encyclopedia of Philosophy, Cox, La Caze and Levine (2005) point out that “integrity is primarily a formal relation one has to oneself”. This is an important theme that runs through the philosophical discourse on integrity, and it relates to integrity that we characterize as “being whole and complete as a person”. From the Stanford Encyclopedia of Philosophy:

* “integrity” refers to the wholeness, intactness or purity of a thing – meanings that are sometimes “applied to people.”
* A thing maintains its integrity as long as it remains uncorrupted
* Integrity as the integration of self, as maintenance of identity, as standing for something

[We will now deal more directly with how] integrity determines being whole and complete as a person and how being whole and complete as a person relates to the quality of one’s life.

**THE ROLE OF ONE’S BODY**. While in everyday speaking we might say that a person identifies with their body, on closer examination it is not their body per se with which they identify, that is, it is not their body per se that they are for themselves. Rather it is what they say to themselves and to others about their body, their interpretation of their body, with which they identify.

For example, two different people lose both legs. One of the two says to herself, “I am less of a person”, and as a result may contemplate suicide, or perhaps experience depression. The other of the two says to herself “I have lost my legs, but I am no less of a person”, and as a result goes on to live a productive and fulfilled life, and does so despite having an impaired body. It is what I say, i.e., my word, with which I identify, rather than my body per se.

Indeed, to emphasize the point, it is never one’s body per se that one is for oneself; rather, it is what one says about one’s body – one’s judgments, evaluations, e.g., the pride or shame about one’s body with which one identifies. This further clarifies why in Section [2.C.I] we made the distinction between the integrity of a person and the integrity of that person’s body. As we said, at least for purposes of integrity, we treat a person’s body as an object or system, and distinguish a person’s body from the person. The integrity of a person’s body has to do with the wholeness and completeness of that person’s body. The integrity of a person has to do with the wholeness and completeness of that person’s word.

**THE ROLE OF ONE’S FEELINGS.** Similarly, some of us think we are our feelings, i.e., we identify with our feelings. However, with a deeper examination of ourselves it becomes clear that it is not our feelings per se (what is happening in our brain and endocrine system, or even any resultant sensations or feelings about which we become aware) that we are for ourselves. Rather it is what I say I am feeling, and what I say about what I am feeling (that is to say, my interpretation of those sensations and feelings) that I am for myself.

If you experience an emotion, let’s say annoyance, that you interpret as inappropriate to the circumstances in which you find yourself, with incredulity you might say, “Why am I feeling annoyed?” In your questioning of the appropriateness of the feeling, you have identified your self with what you say about the feeling (your interpretation of the feeling), not with the feeling itself. On the other hand, if you experience annoyance that you interpret as appropriate to the circumstances, with definiteness you might say, “I am annoyed!” In your conclusion of the appropriateness of the feeling, again, you have identified your self with what you say about the feeling (your interpretation), not with the feeling itself. Moreover, unless one is in some way mentally deficient, one acts consistent with one’s interpretation, rather than acting consistent with the emotion itself.16

**THE ROLE OF ONE’S THINKING.** Finally, some might argue that we identify with our thinking. If we pay attention to our thought process, it is clear that we have different kinds of thinking.

In one kind of thinking, a good many of our thoughts are thoughts that we just have. That is, many thoughts just seem to come into mind willy-nilly. In fact, we sometimes reject the thought that we just had as being inaccurate or inappropriate to the situation, rather than identifying with it. Again, as with the emotions we experience, it is our interpretation of the thoughts we have – that is, what we say to ourselves about those thoughts – with which we identify.

Another kind of thinking is when we generate thoughts intentionally, when we are thinking rather than having thoughts. This includes when we think creatively; commonly we call this “having a new idea about something”. In this creative thinking, we are speaking to ourselves about something – in words or symbols or images. We also go on to speak to ourselves about our new idea – that is, what we said when we were thinking creatively. In this speaking to ourselves about our new idea, we reject certain statements we made in the new idea, modify others and accept yet others. Whether it be what we say to ourselves in formulating the original idea, or what we say to ourselves about the original idea, it is what we say to ourselves with which we identify.

Of course we have all experienced situations in which we later discover that what we said in our interpretation was in fact erroneous or was inappropriate to the situation. Nevertheless, accurate or inaccurate, it is with what we say in our interpretations at the time that we identify. And, this includes when we discover an error in an earlier statement of interpretation that leads to a new interpretation.

**ONE’S WORD TO ONESELF: THE FOUNDATION OF INTEGRITY.** Being a person of integrity begins with my word to myself that J am a person of integrity. If I attempt to start with my word to others to be a person of integrity without having given my word to myself to be a person of integrity, I am almost certain to fail to be a person of integrity. Once I have given my word to myself that I am a person of integrity, I am more likely to notice opportunities to act with integrity regarding my word to others. (In addition, one is likely to act with more caution and care in giving one’s word to others.) If in this process one does not practice dealing with one’s word to one’s self with integrity, one will fail to be a person of integrity. Ultimately, when one’s word to one’s self is whole, complete, unbroken, unimpaired, sound, perfect condition, it serves as a foundation on which one is likely to deal with one’s word to others with integrity.

In the end it is honoring what I say to myself when I say I am a person of integrity that is the beginning and end of being a person of integrity.

When giving our word to others, one would think that it would be obvious to us that we have in fact given our word (although later we will argue that for most people even when giving their word to others they are often unaware that they have given their word). At the same time, when we give our word to ourselves, we seldom recognize that we have in fact given our word. For an example of this failure, think of occasions when the issue of self-discipline comes up, and the ease with which we often dismiss it – of course, always “just this one time.” In such self-discipline cases, we fail to recognize that we are not honoring our word to ourselves; and, that in doing so, we have undermined ourselves as a person of integrity.

As we have said, integrity for a person is a matter of that person’s word, nothing more and nothing less; and one’s word to one’s self is a critical part of one’s word. By not being serious when we give our word to ourselves, we forfeit the opportunity to maintain our integrity by honoring our word to ourselves. We take the conversations we have with ourselves as merely “thinking”. And when in those conversations we give our word, giving our word occurs to us as just more thinking, rather than having just committed ourselves (given our word) to ourselves. For example, thinking to myself that I will exercise tomorrow. But, when tomorrow comes, I have either simply forgotten my word to myself, or if remembered, I easily dismiss my word as nothing more than a thought (a good idea) I had yesterday. What it costs not to treat your word to yourself with integrity is that you become less powerful as a person, and with less power you will find yourself using force to deal with the world (guile, anger, bossiness, subterfuge, righteousness, defensiveness, manipulation, and the like – or at the other end of the spectrum but still a matter of force playing the victim, helplessness and the like).

An important aspect of my word to myself is my word to others. For example, when I give my word to someone to meet them at a given time tomorrow, in effect I have also given my word to myself to be there tomorrow at the appointed time and place. Likewise with any time I give my word to others, I have also given my word to myself to be good for my word.

If I hold myself up as a person of integrity and do not honor my word to myself, it is highly unlikely that I will be able to be in integrity with others.

Most of us hold ourselves to be a “man of integrity” or a “woman of integrity”, but if one does not treat one’s word to oneself as a matter of integrity, being a person of integrity is simply not possible. Unfortunately, most of us human beings believe that we are people of integrity, but as Chris Argyris concludes after 40 years of studying human beings, we humans consistently act inconsistently with our view of ourselves. More specifically, and said in the language of our model, we consistently hold ourselves up as people of integrity but do not honor our word to ourselves, and moreover are blind to this contradiction.

Referring back to what was said [at the beginning of Section 3.H.] about the philosophical discourse of integrity’s relation to being whole and complete as a person – “integrity as the integration of self,” “quality of character,” “uncorrupted,” “exhibiting integrity throughout life,” “maintenance of identity” – one’s word to oneself can be said to be central in being personally whole and complete.

When I am not serious about my word to myself, it will show up consistently as various problems and difficulties in my life, the actual source of which I will obscure with various explanations and justifications. Moreover, I will show up for others variously as inconsistent, unfocused, scattered, unreliable, undependable, unpredictable, and generally unsatisfied as a person.

In conclusion, honoring your word to yourself provides a solid foundation for self discipline. When an occasion for self-discipline shows up for you as an occasion for honoring your word to yourself, and you see that as a way to maintain yourself whole and complete as a person, that empowers you to deal with the matter with integrity.

**SUMMARY.** Whether it be one’s body, or one’s emotions, or one’s thoughts, it is our interpretation, that is what we say to ourselves, our word to ourselves, that ultimately defines who we are for ourselves. That is, who one is is one’s word, nothing more, nothing less.

**I. ONE'S RELATIONSHIPS ARE CONSTITUTED BY ONE'S WORD**

In Section [3.H.] we looked at a person’s integrity from the perspective of what it takes for that person to be whole and complete, and now we look at integrity from the perspective of what it takes for the relationship created by the person’s word to be whole and complete.

The power of taking one’s self to be constituted by one’s word becomes even clearer when examined in light of the fact that giving one’s word to another creates a relationship (or a new aspect of an existing relationship). When I give my word, I have a new relationship not only to the other, but, less obviously, with myself as well. Therefore it is important to hold one’s word in a context that includes both one’s word as itself and the relationships that it creates.

Simply put, when I give my word to another, that act creates various conditions of “counting on” or “reliance on”, in the relationship between me and the other. Given that one’s word creates the relationship, it follows that when one’s word is whole and complete, the aspect of the relationship it creates is whole and complete. In a critical sense, who I am for another is my word – that is, my expression of my self. (My word is constituted not only literally in words, but also in my actions. Therefore, my word includes what I say literally in words and what my actions say. Of course, as is the case with what I say in words, what is said by my actions will often be interpreted by others. And, therefore who I ultimately am for others is a product of my word and my actions.)

For a relationship to have integrity (to be whole and complete), one’s word must be whole and complete. As Shakespeare said in Hamlet, “This above all: to thine own self be true, it must follow, as the night the day, Thou cans’t not be false to any man.” When one is true to one’s word (which is being true to one’s self), one cannot be but true to any man.

Of course, there are at least two sides to a relationship. If one side has integrity and the other does not (the word of the other is not whole and complete) there is a diminution of integrity in the relationship resulting in a diminution of the available opportunity for performance in (or resulting from) the relationship – however performance is defined. Nevertheless, when the other person in a relationship is out-of-integrity and therefore diminishes the workability of that relationship, your being in-integrity allows you to continue to be effective in the relationship and also to contribute positively to the workability of that relationship. And therefore, in spite of the other being out-of-integrity you personally benefit. Your being in-integrity leaves you whole and complete both outside of the relationship and inside the relationship. Thus, integrity is privately optimal; it does not require the cooperation of the other. You benefit even though the other is out-of-integrity.

**J. CONCLUSION: AN ACTIONABLE PATHWAY**

In conclusion, in our new model, the way in which integrity is distinguished and defined for individuals, groups and organizations reveals the impact of integrity on workability and trustworthiness, and consequently on performance. Even more importantly, our new model provides an actionable pathway (that is, direct access19) to integrity and therefore to workability and trustworthiness, and, consequently, to elevating performance itself.