

The Integrity of Leaders: Still an Issue for our Day

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Abstract

The integrity, authenticity and ethical behavior of leaders is as much a critical issue today as it was a century ago. Greed, power, prestige and personal gain, at the expense of the public, combined with pressure from shareholders for higher share prices and the lack of sound corporate governance are key contributors to unethical behavior and character breakdown. Solutions vary from followers becoming watchdogs and taking collective action and leaders practicing greater self-control and self-reflection to the establishment of detailed value systems and corporate governance within organizations and the training of future leaders about skills to fight unethical temptations as part of higher education. Case examples from Korea related to the recent downfall of stem-cell scientist Hwang Woo-suk and attempted ousting of fraudulent Chairman Chey Tae-won of SK Corporation provide insight into the power and role followers can play in enforcing greater leader integrity.

I. Introduction

The list of issues facing today's leaders is both intimidating and invigorating. High on the leadership agenda are globalization and its attending network of leadership challenges such as cultural diversity and shared leadership, and empowerment of an increasing workforce of knowledge-based workers. However, unlike these emerging issues, the integrity of leaders is as much a pressing issue today as it was a century ago or will likely be in the next century. Human nature, it seems, does not change easily.

Corporate ethics, or the lack thereof, has been center stage in the world's leading newspapers during the past several years, ignited by the collapse of Enron. Leaders within these scandalous companies have come under close scrutiny for the roles they played in not protecting stakeholders while bending the rules for their personal benefit. Just months earlier, their faces were commonly seen in the media as role models for up-and-coming leaders. What went wrong? Has the increasing emphasis on bottom-line results and pressure for higher stock prices during the past several decades influenced leaders to lead with a blind eye? Are the leaders alone to blame? Or should followers

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also be held accountable? What can be learned from the scandals? What must be changed to avoid similar debacles in the future and raise the bar for the next generation of leaders? These are but a handful of pressing questions that must be answered to restore the respect and integrity of leaders.

II. Importance of Integrity

In his book *American Generalship: Character is Everything: The Art of Command*, Puryear (as cited in Klann, 2003) argues that there is absolutely nothing as important as character in successful leadership. Maxwell (1993) defines integrity as “the most important ingredient of leadership” (p.35). According to Goleman (2002), “Integrity, therefore, boils down to one question: Is what you’re doing in keeping with your own values?” (p.47). On the other hand, Covey (1990) goes as far as claiming that the lack of integrity is one of the seven chronic problems facing business today, and creates problems with customer satisfaction, employee retention and business as a going concern.

People in the business world understand instinctively that good character helps productivity. Integrity breeds trust and confidence and a good feeling about oneself, which in turn, builds a greater desire to exceed company expectations and take ownership of one’s responsibilities. Good character also helps people reach their potential, achieve success and improve interpersonal relationships. Conversely, the lack of integrity can create serious complications to an organization such as financial losses, litigation, government scrutiny, employee morale and retention, company reputation and public confidence (Klann, 2003).

Another way of observing leader integrity is to examine the authenticity of leaders. George (as cited in Pandya and Shell, 2005) claims that “authentic leaders are people who live by their values every day and who know the true north of their moral compass. They lead with their heart, not just their heads....They do so to get great results, not just for their shareholders, but for all their stakeholders” (p.68). George (2005) further defines authenticity as the courage to show personal weaknesses and not hide behind position power to direct others. Authentic leaders are true to their values, they know what values will guide their leadership; they know their ethical boundaries; they are not afraid to expose their vulnerabilities; they do not fall prey to the power, greed and titles that short-term economic results can offer; and they face up to their leadership mistakes early.

III. Causes of the Breakdown

A USA Today/CNN/Gallup national poll conducted in 2002 found that 70% of those polled distrusted CEOs of large companies and nearly 80% believed that top executives would take improper actions to help themselves at the expense of the company (as cited in Hernez-Broome, Steed and Lundberg, 2004). The public assumes leaders will easily fall sway to the temptations of greed and money with little respect for stake-

holders, as far as ethics, integrity and character are concerned. However, Hernez-Broome et al found that corporate leaders are upset by the bad publicity and claim that bending the rules and leading without integrity are limited to a few bad apples, souring the image of leadership in general.

While personal greed may be a key catalyst in compromising one's leadership integrity, pressure from shareholders to achieve continuous profit growth and remuneration programs designed to reward bottom-line results are easily used to justify unethical behavior. Moreover, the consuming drive to climb the corporate ladder in the search for power, prestige, reputation and monetary rewards can easily mask the perceived short-term damage of compromising one's values, character or integrity. Leaders can easily forget that power, titles and personal wealth do not make the leader. Also, there is a mistaken belief that our values are determined at an early age so why waste any effort on trying to change (Klann, 2003). In other words, we are who we are. Period. Such stubbornness among the minority of leaders has tarnished the institution of leadership and must be purged to restore its luster.

IV. Potential Solutions

Given the subjective nature of what "proper" leadership values and character a leader should possess, little formal education is devoted to teaching would-be leaders the importance of integrity, or specifically, how to lead through the temptations that unethical behavior can create (Klann, 2003). It is no wonder that the issue of integrity remains a pressing issue in the world of leadership. One fundamental solution for the health of future organizations is that higher-level education must take a more proactive position in teaching proper business values, ethics, integrity and leader authenticity. Past excuses related to the difficulty of teaching such topics are no longer an acceptable argument.

A simple survey of leading business graduate schools in the United States indicates that a course on business ethics is generally included as part of the core curriculum.¹ Additionally, elective courses are offered in such areas as Applied Ethics, Corporate Responsibility, International Business Ethics, Ethics of Corporate Management, Power and Influence, Corporate Governance and the Moral Leader. While this must be viewed as a step in the right direction, concerns remain that the core ethics component of the curriculum is a mere formality (often required as only a half-term or pre-term course) and that specialized courses should be moved to the core curriculum, setting the tone for students of the seriousness of ethics to business leadership.

Within existing business infrastructure the most pressing and viable solution to eradicate unethical behavior begins with the establishment of a clear, detailed set of organizational values (Klann, 2003) and organization-wide commitment to the values. Commitment must be seen and start at the top (Alexander, 2003). Moreover, organizations should restructure performance evaluation criteria to include sections on integrity,

¹ Survey included business schools at Harvard, Stanford, Wharton, Columbia and University of Michigan through respective school Internet portals.

ethics, adherence to values and other character-related behaviors. Internal training programs should allow senior executives to facilitate discussions related to moral and ethical conduct, which not only sets an example but also holds executives accountable to such future behavior (Klann, 2003). Lastly, corporate governance must be re-evaluated to include better provisions for internal audit, compensation arrangements, zero tolerance for abusers and a safety net for whistle blowers (Hala, 2003). Hala also recommends that boards of directors must take an active role in scrutinizing executive activities.

In its 2005 third annual survey of the corporate governance found in Asian countries, the Asian Corporate Governance Association in collaboration with CLSA securities ranked Korea in sixth place out of ten countries, a drop of one place from 2004, behind countries such as Singapore, Hong Kong, Malaysia and India (CG Watch, 2005; 2005). The survey examined not only the level of corporate governance laws and regulations but also the application of such laws. Noteworthy is the gradual improvement in corporate governance taking place in markets on the back of intensifying pressure from outside stakeholders. In 2004, Korea overtook Taiwan in the rankings as shareholders stepped up their efforts to force greater authenticity, transparency and accountability from boards of directors and chief executive officers of leading companies, especially since the 1997 Asian crisis. The most prominent example was the efforts of Sovereign Asset Management to oust chairman Chey Tae-won of SK Corporation (Cho, 2004).

Chairman Chey was convicted and sentenced in 2003 to a three-year jail term (actual time served was three months) for accounting fraud he committed while serving as chairman of SK Global, an affiliate of SK Corporation. As the major shareholder of SK Corporation, Sovereign began in earnest from early 2004 to change the articles of incorporation of SK Corporation to disallow any person charged or convicted of a serious criminal offense to function as a board member of the corporation, especially a crime such as fraud. Such an article had been implemented earlier in SK Telecom, a sister company of SK Corporation. However, shareholders failed to make the change during the annual shareholders meeting in early 2004, as the proposal was bunched together with other proposed changes and voted on as a lump sum. Sovereign then took the next step of demanding an extraordinary shareholders meeting to put forth the article change separately, but its proposal was refused by the board of directors. After ensuing efforts within the court system to force a special meeting that were all refused, and the failure again of shareholders to pass the article change in the annual shareholders meeting in early 2005, Sovereign gave up the battle and sold its shares during the late summer of 2005. Following the failure to secure shareholder approval to oust chairman Chey in early 2005, Sovereign's chief executive remarked,

"This is a missed opportunity for shareholders to place the most competent and ethical leadership at the heart of SK Corp. The mere fact that shareholders are so accepting of convicted criminals working in an executive capacity in Korea is one of the major reasons the Korean equity market trades at a massive 42 percent discount to its Asian peers" (Kim, 2005).

However, its efforts should not be considered a complete failure as the efforts resulted in significant changes with the ranks of SK Corporation in terms of not only expectations placed on chairman Chey from the shareholders but also in the level of transparency, disclosure and decision-making process within the organization. The evidence of change can be indirectly seen not only in its record high share price during the past two years but also in its record high net profitability.² Moreover, the two-year battle between Sovereign and SK Corporation was frequently spotlighted by the media, indirectly leading other companies to review their governance policies and pay greater attention to minority shareholder rights.

One key issue that the Sovereign case highlighted was the crucial role the board of directors should play in protecting the company's shareholders from chief leaders in the organization who are not leading with integrity. Sovereign had every right as the largest shareholder to demand an extraordinary shareholders meeting to introduce proposals for change that would have ousted the current chairman. Sovereign expressed this frustration following seven months of attempting to get the special meeting called and then hearing the board had rejected the call for a meeting by stating that it had given the board ample time to address the issues but by their rejection the board "has shown that it is incapable of addressing serious impediments to the healthy functioning of the company" (Cho, 2004). Further reform of the functionality and role of the board of directors in the years to come will be necessary for Korea to climb higher on the corporate governance scale. Furthermore, continued influence from stakeholders will bolster the check-and-balance function of leader integrity while accelerating the reform process at a macro level.

In her book entitled *Bad Leadership*, Kellerman (2004) includes corrupt leadership as one of seven types of bad leadership, defined as "the leader and at least some followers lie, cheat, or steal. To a degree that exceeds the norm, they put self-interest ahead of the public interest" (p.147). A key conclusion of her research is that followers play a vital role in allowing bad leadership to take place. She claims that leaders and followers share responsibility for leadership, both good and bad and "finger-pointing—"He did it!"—will no longer wash" (p.226). Thus, solutions must encompass both leaders and followers. For their part, leaders can limit their tenure, share power, know and control their appetites and become self-reflective. Followers, on the other hand, must form allies, learn to take collective action and become a watchdog (Kellerman). In this respect, followers can play a crucial role in keeping executives honest and forcing better integrity into the system. Public activism, while difficult and time consuming, can create better legislation related to state chartering of companies, SEC reporting requirements, whistle blowing and public funding of campaigns (Nader, 2002).

The short-term challenge, fear, pain but long-term public benefit of whistle-blowing was recently highlighted by a whistle-blower within the scientific team of Professor Hwang Woo-suk. In 2004, scientist Hwang won attention from the world science community through an article he published in the U.S. journal *Science* related to stem-cell research. This was followed in 2005 by the successful cloning of an Afghan dog he called Snuppy. Public funding he received from Korea's Science and Technology Minis-

² SK Corp. posted a record-high net profit of 1.64 trillion won in 2004.

try, Education Ministry and from Gyeonggi Province accelerated, exceeding 62 billion won during the period 1998-2005 (Kwon, 2006). He became a hero in the public's eye and a benchmark for up-and-coming scientists. His prestige increased further in 2005 through further publication in *Science* of his findings related to the successful creation of custom-made stem cells. However, all of his success and public fame came to a crashing halt in November 2005 from the courageous whistle-blowing of Kim Seon-jong, a junior researcher on Hwang's team, and subsequent reporting efforts of investigative journalist Han Hak-soo.

The emotional, physical and economic cost of this action to Kim has and will be enormous. Kim, who admitted duplicating photographs of the DNA used within the stem cell research, is currently part of a public complaint submitted by Hwang, claiming Kim, in collaboration with MizMedi Hospital (a supporting hospital in the stem cell research project), fabricated data and swapped the stem cells with fertilized eggs from MizMedi Hospital (Hwang denies, 2006). Kim has been banned from overseas travel while the prosecution conducts an investigation into Hwang's claims. The whistle-blower has become the suspect, an unfortunate cost of revealing the wrongdoing of a hero.

However, in defense of the findings of the Seoul National University (SNU) Investigating Committee that concluded Hwang's research was fraudulent and refuted both *Science* articles, Hwang admitted to exaggerating his research but revealed that the stem cell research was divided into two steps: "one is to clone embryos and grow them to blastocyst and the other is to cultivate them into stem cells" (Jin, 2006: 3). Hwang and his team were responsible for the former and MizMedi for the latter.³ As Kim was a researcher sent to Hwang's team from MizMedi, the drama of who is at fault widens, especially as each party points a finger at the other for wrongdoing. Hwang revealed possible reasons that Kim and MizMedi may have attempted to ruin his research and reputation. He claims that Kim was snubbed from being awarded the No. 2 authorship of the 2005 *Science* publication that would have given him a "blank check for life" while MizMedi was upset that Hwang refused to join lobbying efforts to obtain a permit to enter a bio-industry complex (Kwon, 2006: 1). To his discredit, Kim has been found to have duplicated other stem-cell images, leading many to believe he habitually fabricates data. It is unclear whether the prosecution will ever be able to accurately determine who was at fault. However, what the investigation will reveal is the depth of greed and personal gain that entices both leaders and followers in today's business world, and the subsequent need for greater checks-and-balances within organizations to monitor such behavior.

As for Han, in an interview with the Korea Herald, Han explained that when evidence of wrongdoing by Professor Hwang was first brought to his attention, he found it hard to believe but also could not ignore the information because the sources seemed reliable (Jin, 2006). But as the investigation deepened and the lies and fraudulent behavior of Hwang were verified, he faced the uncomfortable task of dealing with certain backlash from the scientific community, the media and the public, should his investiga-

³ The SNU committee agreed that cloned embryos to the blastocyst phase had been accomplished but stem cells had not been created from them (Jin, 2006: 3).

tive results be made public. Han stated, “I thought I would be condemned by them even though I presented concrete proof” and “That fear came true in the end.” Following the public screening of his findings, Han received threatening phone calls and required the use of a personal bodyguard; meanwhile, his family was forced into hiding (Jin). Scientists have also criticized his findings, stating that “scientific works can only be tested by scientists, not journalists who have no expertise or qualifications.” Han responded by concluding that if science reporters had properly verified the research from the first, then there would have been no need for investigative journalists such as himself (Jin).

At the conclusion of its investigative findings into the actions of Scientist Hwang, the SNU Investigative Committee stated that Hwang’s scandal will be a stepping stone to better scientific management and contribute to Korea’s scientific advancement. They also applauded the courage of the young scientists who took on Hwang to reveal the truth of his actions (researcher deceived, 2006). The actions of these brave people to confront a national hero and reveal his unethical and fraudulent behavior have revealed the successful change that such actions can have on future leadership while also revealing the need to create a more protective and efficient safety net for whistle blowers. While it is likely that Han will emerge from this scandal with greater respect, prestige and potential economic rewards, it is still too early to conclude how the true whistle blower Kim will emerge. Hopefully, Kim, too, will emerge a hero for the “little guy” to look to for courage in forcing leaders to act with greater integrity.

Lastly, at a personal level and at the heart of integrity is taking personal responsibility for one’s behavior and development of integrity. This requires patience, perseverance, time and constant self-reflection. In his commencement address to Bryant University students in 2005, George (2005) offered the following five solutions on becoming an authentic leader:

1. Know the purpose of your leadership.
2. Practice your values every day.
3. Lead with your heart, not just your head.
4. Build long-term, enduring relationship, not superficial friendships.
5. Have the self-discipline in life to get results. (p.5)

In his book *Principle-Centered Leadership*, Covey (1990) recommends that to lead with integrity leaders must find their moral compass, a compass founded on objective principles, as compared to subjective values. These universal principles face little disagreement and include “fairness, kindness, dignity, charity, integrity, honor, quality, service and patience” (p.95). He argues that the status quo of “management by maps (values) must be replaced with leadership by a compass (principles)” (p.97). In essence, leading with integrity at a personal level means finding and defining one’s core principles (obtaining a moral compass) and then applying the principles by exercising self-control (following the compass).

Covey further recommends that a leader endeavoring to enter this realm of principle-centered leadership must (1) resolve to exercise self-discipline and self-denial to overcome the restraining forces of appetites and passions, and (2) resolve to work on character and competence to overcome pride and pretensions. Considering the consuming power of greed, power and pride in the breakdown in leadership integrity, the im-

provement of character and the focus on self-discipline and self-denial cannot be underestimated in the personal development process of authenticity.

As pertains to becoming an authentic leader, Covey concludes with the following advice:

- Never make a promise you will not keep.
- Make meaningful promises, resolutions and commitments to do better and to be better.
- Use self-knowledge and be very selective about the promises you make.
- Consider promises as a measure of your integrity and faith in yourself.
- Remember that your personal integrity or self-mastery is the basis for your success with others (p.77).

Despite busy schedules and overwhelming responsibilities, today's leaders must incorporate an ongoing, personal leadership development plan into their schedules that is heavily weighted towards the improvement of integrity, authenticity and ethical behavior. Shortcuts cannot be taken; perseverance is required.

V. Conclusion

Given the inherent survival-of-the-fittest drive of human nature, the unethical behavior of leaders will never be completely eradicated. There will always be a few bad apples that spoil the image of leadership as a whole. This should not be used as an excuse, rather as a motivation to fill the loopholes of temptation, get followers more involved in the leadership process and prepare future leaders to better deal with situations that may compromise a leader's character and authenticity. Maybe then, the integrity of leaders can be taken from the agenda of pressing leadership issues.

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