

Exploring Integrity, Leadership and Value Maximization in Microfinance

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This study intends to review thoughts and expositions on integrity, leadership, and its potential link to value maximization in microfinance. The major source of exposition is from Jensen, Erhard, and Zaffron (2011). Prior reviews revealed that a man with integrity is a man of his word. As such, integrity begins with the mind as the mind compels the desire to exercise the manifestations of integrity. Jensen et al. (2011) measured integrity as equivalent to honoring one's word. Applying such definition in microfinance, imputed with concepts of leadership with a view of maximizing value in microfinance is limitless as well as exciting. This paper therefore attempts to demonstrate some of those possibilities.

JEL Classifications: O16, O17, G02, G21, G32

Keywords: Integrity, Leadership, Value Maximization in Microfinance, Valuation, Ethics in Finance

This review aims to understand integrity and its dimensions and leadership and its link to value maximization in finance. The paper of Jensen et al. (2011) cited that integrity has been found to have a causal link to increased performance, quality of life, and value creation of entities.

Integrity as virtue specific to individuals and persons has been regarded as an important component of the individual's success and reputation. For organizations and institutions, the value of integrity is not as clear. Its impact to the bottom line and its effect to the maximization of firm value are not tangible or even unobserved in the analysis. Court, Leiter, and Loch (1999) as cited by Lee, Faff, and Smith (2009) asserted

that firms' "value" of their reputation is necessary requirement for business strategy and risk management practice.

Integrity is an age-old discipline exhorting virtues of prudence and wisdom. In the market however, questions arise like how can integrity be defined, measured, or manifested? Can leadership provide link to integrity and value maximization in finance?

OBJECTIVES

Given such perspective, this review attempts to cull over existing literature on integrity and

its dimensions, leadership and its link to value maximization in finance. As such, the paper shall undertake the following objectives:

1. To be able to define integrity and its differences with morality and ethics;
2. To be able to understand leadership in promoting value maximization in finance; and
3. To be able to understand integrity and value maximization in finance, its applicability, and prospects.

This paper focuses on exploring integrity and its characteristics, and leadership and its link to value maximization in finance. This is an initial step to better understand the whole discipline of integrity and hopefully help build opportunities

for further development in thoughts and concepts in the future.

The paper does not intend to provide breakthrough measurements and dimensions of integrity but instead focuses on aspects highlighted for clarifications and disagreements, arising from ideas of Jensen et al. and others. Although, it is possible to measure variables of integrity, by conducting a survey based on Jensen's definition of integrity, and refine and model its dimensions later on.

THEORETICAL/CONCEPTUAL FRAMEWORK

In Figure 1, one can trace back Paul (Romans 7:15-20, New International Version), the Apostle

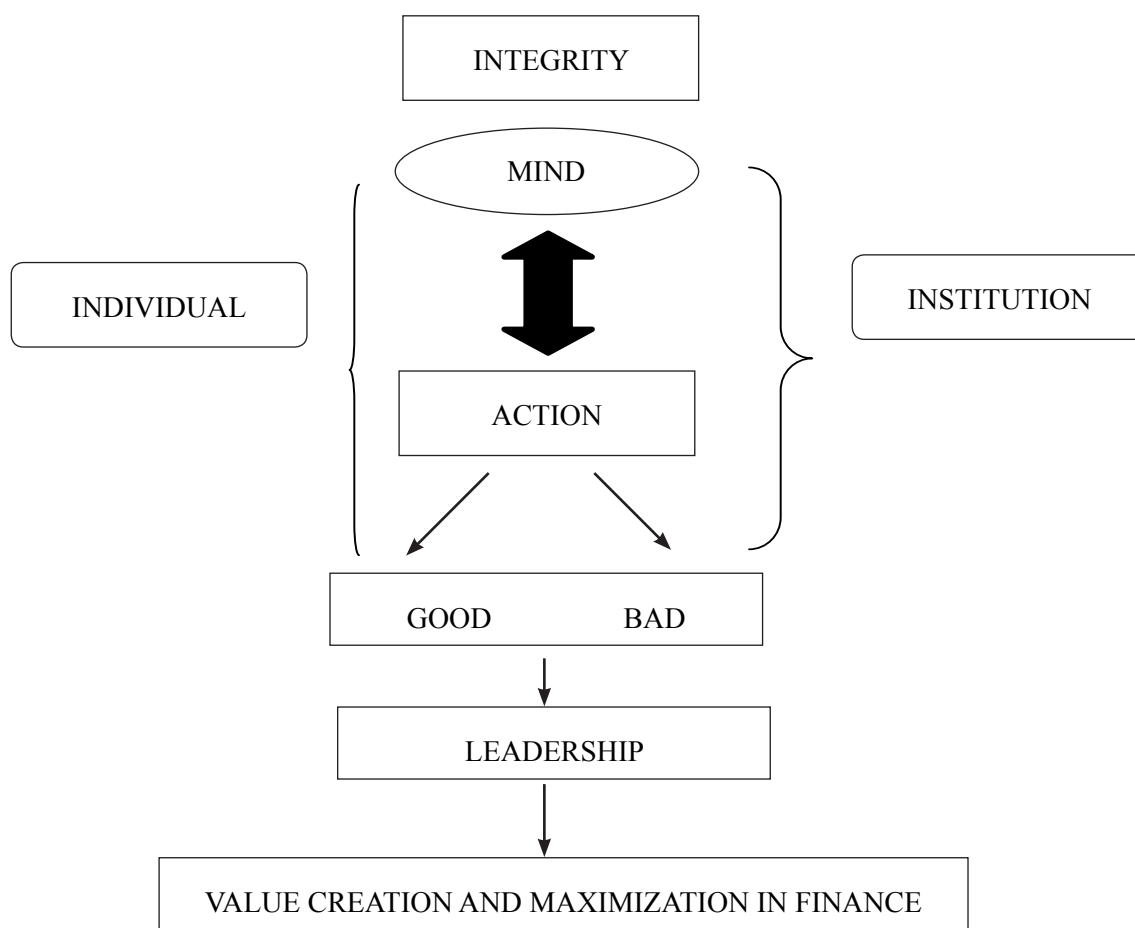


Figure 1: Conceptual framework

Table 1*Integrity Dimensions within Institutions and Organizations*

Design	The design must be capable of delivering on its purpose.
Implementation	The design must be implemented completely and accurately.
Use	The system or object must be used for what it is designed, intended purpose.

Source: Jensen et al. (2011)

and a Roman soldier in his writings about man's sinfulness. It is inherent at the same time that man's tendency to do good is challenged when opportunity arises to do otherwise. For Paul, it is simply human nature when man is left to do what he does not want to do and left doing what he is not supposed to be doing.

Since organizations and institutions are made up and governed by men, there is a correlation explaining that such entities tend to project similar tendencies as individual human beings behave. It is clear then that in the analysis, man is first and last in the analysis.

For Jensen et al. (2011), individuals have integrity when they honor their word. Honoring one's word is done in two ways: by keeping the word, otherwise, the party has to inform the recipient if one cannot honor their word. They implicate that one's word is equated to one's self. A man with integrity is a man of his word.

On the other hand, from Table 1, integrity within institutions and organizations relate to the completeness and soundness of the design, implementation, and use. To have integrity, the system must have no missing parts and no necessary parts as well.

Jensen et al. (2011) had not been very detailed on the definition and characteristics of the design, implementation, and use. The design may mean to impute the core competence of the firm without which the firm or institution has no value to sell or develop.

The concept of Jensen et al (2009) can be illustrated when a firm adheres to quality, integrity, and excellence in completing its production cycle. One of its applications may be inferred from the firm's cash conversion cycle and its operating cycle—firms charging customer with a price worthy of the goods or services and firms paying its obligations on time and without hesitation.

The cash conversion cycle is the period of time cash is tied up from production to sale and collection of goods and services. The operating cycle however considers the whole period of time cash has been involved in the operations of the firm; the shorter the cash conversion cycle, the better for the firm as its liquidity is enhanced by shorter waiting time for cash. The firm experiences cash problems when its cash conversion cycle is too long, tying up necessary liquid assets required for maintaining a positive working capital management.

As such with integrity, once the product, systems, and procedures in the production or manufacturing and delivery of a product or service is completed, it is more likely to generate customer satisfaction thus allowing for chances of increasing customer loyalty. A delighted customer is a sure guarantee of continued inflow of cash revenue and value maximization for the firm. A sustained and stable cash flow predicts the characteristics of a highly valued firm while uncertain, fluctuating cash flows characterized that of low valued firms.

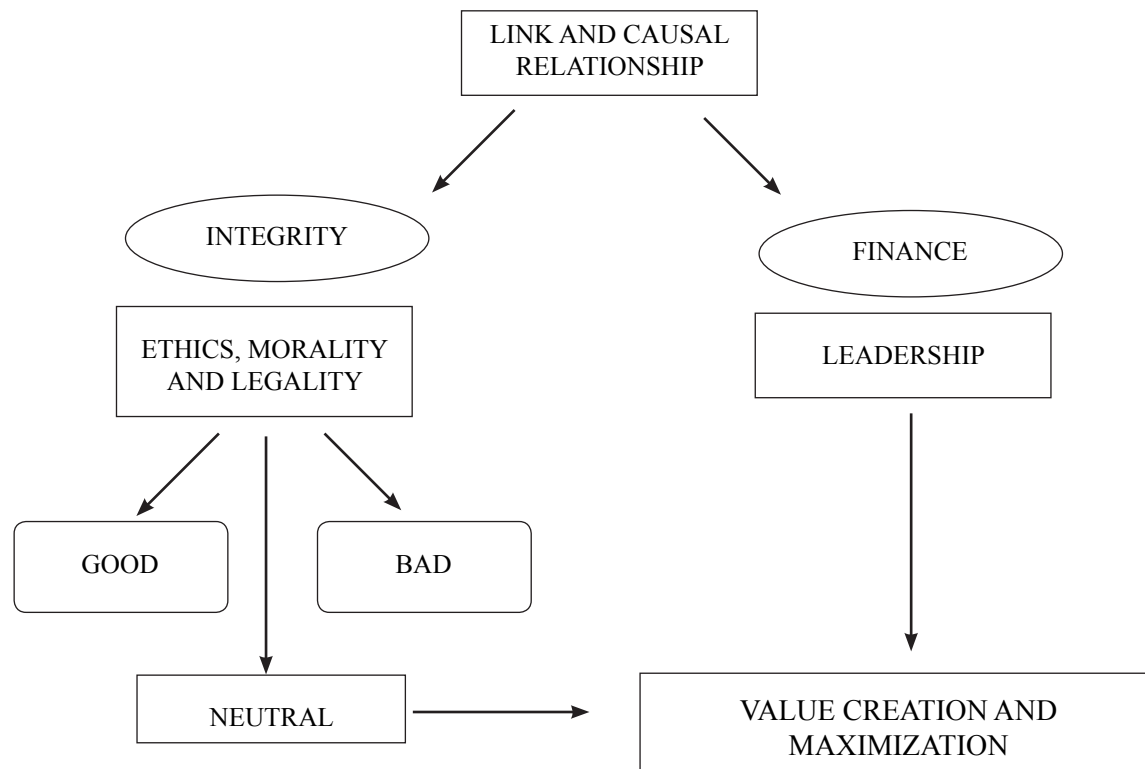


Figure 2. Link and causal relationship.

REVIEW OF COMPETING THOUGHTS

A. Integrity, Morality, and Ethics

In Figure 2, integrity indicates that it is a decision of the mind and the heart. It is more often measured by its manifestations among individuals and institutions. For organizations and any human systems, as found in Table 2, the definitions of integrity are equated to the dimensions and characteristics of one's word.

Jensen et al. (2011) defined integrity as a state of being whole, complete, unbroken, unimpaired, sound, and in perfect condition. It is therefore purely positive, complete, and has no imputations or chances for being in state of distaste, decay, or destruction.

Morality and ethics on the other hand, deal with good or bad and right or wrong bordering on desirable and undesirable behavior. Morality

combines society's right and wrong behavior while ethics defines a set of values that apply to all members of a group or an institution.

Pojman (1995) differentiated morality to include concepts, moral principles, and theories while ethics deals more with actions and practices on what ought to be done. While Aristotle's ethics capitalizes on the character or virtue, Kant's ethics equals motive and Plato's ethics appeal more to reason and logic.

Table 2 identifies various perspectives of marking variables capturing integrity among individuals and institutions. Reason allows in the definition that perhaps what the mind and the heart conceive, the mouth will speak, thus giving justifications to measuring integrity from the word spoken.

Although no study has yet fully explored such variables in empirical studies, reason would deduce that an individual and an institution serious

Table 2
Dimensions and Characteristics of One's Word.

INDIVIDUALS

1. What you said – you will do or not do, doing it on time.
2. What you know – doing it as you know it meant to be done and doing it on time.
3. What is expected – you are expected to do or not do and doing it on time.
4. What you say so – being willing to be held accountable.
5. What you stand for – holding yourself out to others and standing for.

A. ORGANIZATIONS

1. Whole and complete with respect to its word nothing hidden, no deception, no violation of contracts or property rights.
2. Organization honors its word:
 - 2.1 Internally – between members of the organization.
 - 2.2 Externally – between organizations that deals with it.

Implication:

- 2.2.1 Integrity - is not treated as a necessary condition for performance but only as a virtue.
 - 2.2.2 Self-deception about being out of integrity – people being unaware of the contradiction between what they say and what they do.
 - 2.2.3 The belief that integrity is keeping ones word – leads to impossibility of maintaining integrity.
 - 2.2.4 Fear of not keeping ones word – avoiding giving ones word.
 - 2.2.5 Not doing cost benefit analysis on giving one's word when people do not fully consider what it takes to keep that word.
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Source: Jensen et al. (2011)

of exercising integrity must be extra cautious of word delivered and promised. Since it is perceived to be costly both in commitments and reputation, one could also deduced that entities which upheld the importance of integrity in both personal and business transactions are more likely regarded as highly respected and reputable individuals or institutions, capable of

delivering its promise and of dictating its price in the market.

However, this has repercussions. More often, firms that are perceived to be highly valued invest heavily on breakthrough technology, allot large budget for research and development, and allow intensive human resource training and development. Moreover, it must be sustained.

Table 3
Ethical Positions

Positions Asserted	Absolutism	Objectivism	Subjective Universalism	Conventionalism	Subjectivism	Amoralism	Skepticism
Moral principles can't be overridden	Yes	No	No	No	No	No	?
Moral principles are objectively valid	Yes	Yes	No	No	No	No	?
Moral principles must be universalizable	Yes	Yes	Yes	No	No	No	?
Moral principles are interpersonal	Yes	Yes	Yes	Yes	No	No	?
Moral principles apply to oneself	Yes	Yes	Yes	Yes	Yes	No	?
We can know whether it is moral truth	Yes	Yes	Yes	Yes	Yes	Yes	No

Adapted from J. Fishkin, as culled by Pojman (1995).

Pojman (1995) differentiated interesting ethical positions in Table 3. Ethical objectivism believes that there are universally valid or true moral principles that exist based either on the will of God, natural law, common sense, reason, or intuition. Ethical relativism adheres that everything is relative. In contrast, ethical skepticism and moral skepticism argue that we cannot know whether there are any universally valid or morally true principles.

In other words, one could deduce that ethical positions are influenced by factors like personal decision, upbringing, and enlightenment coming from the grace and wisdom of the Almighty God. Exposure to thoughts and principles, real life experiences are effective teachers in inculcating ethical positions that individuals and institutions would more likely adhere to and apply to life.

Given these backgrounds, would leadership requirements be affected?

B. Leadership

In a related paper of Jensen et al. (2011), they stated that leadership is all about giving your word to something that no one knows how to accomplish. Page and Czuba (1999), as culled by Perez (2012), stipulated that leadership must be empowered to challenge assumptions about power to helping, achieving, and succeeding. It presupposes that power in leadership can change and can even expand ones capabilities.

In microfinance, Yunus (2003) formalized the idea by suggesting that giving financing access to the marginalized sector of society opens opportunities for use of their capacities, especially

women. Dominant among these opportunities include minimizing barriers of empowerment and overcoming those barriers to women. These are manifested in forms of increasing women's income level and control, participation in decision-making, more equitable status of women in the family and community, increased political power and rights, and increased self-esteem allowing women as potential leaders of community.

The act of leadership is both a challenge to one's conviction and to action. A person with leadership stands on tiptoe, unless such person is anchored on key principles to stand solid for leadership. As a critical component to leadership, Jensen et al. (2011) added that a person who is likely to be whole and complete is assumed to be at peace with himself, has no fear of losing admiration of others, acts with humility, is able to learn from mistakes, and seemed to be and must be with integrity.

Table 4 presents four aspects of the contextual framework for a leader and leadership. The first three of the structural elements covers factors like integrity, authenticity, and being committed to something better than yourself. Such factors cover the foundation of leadership. The succeeding elements raise a contextual framework where the leader facilitates the transfer of leadership.

The last elements consist of removing obstacles and limits, which might hamper the act of being a leader and the process of exercising leadership.

C. Value Maximization in Finance and Links with Ethics and Integrity

Several studies have attempted to assess impact of ethics and value maximization but very few, if not none at all, covers the complexity of integrity and finance. While maximization of shareholders' wealth is the chief financial goal of the firm, the optimal capital structure theory stated that the value of the firm is maximized when the firm's cost of capital is at its minimum. The measurement, clearly, does not include integrity in the valuation process.

Ang (1993), as cited by Cagle and Baucus (2006), argued that maximization of wealth is consistent with ethical behavior. It was ambiguous, however, as to how ethical or unethical the maximization of the process will be. While ethical finance defines ethical nobility in terms of the value aim of maximizing shareholders' wealth of the firms, Ang (2003), as cited Cagle and Baucus (2006) further implored that actions and related exercise of judgment of individuals and institutions to maximize shareholders wealth is good and therefore is ethical in finance.

Table 4

Four Aspects of Leadership

ASPECTS	DEFINITIONS, COVERAGE
First: Linguistic Abstractions	Defines realms of possibility, being a leader in all possible ways available, the leader is free to be and free to act.
Second: As Phenomena	Leadership exists in the sphere of language whether literally or through actions.
Third: As Concepts	Leadership exists in a domain of created future, a future defined to fulfill potential difficult concerns of stakeholders.
Fourth: Leader as a Term	Leadership is defined as being committed to realizing a future to fulfill concerns of stakeholders, given availability of an unlimited opportunity, set for being and for action.

Source: Jensen et al. (2011)

Dobson (1997) pointed out that ethical behavior is fundamental to the reputation and long-term viability of a financial market. The values of free judgment, responsibility, and solidarity have become an empty concept and have since lost its importance to sustaining the financial market.

However, Brealey, Myers, and Allen (2008) stated that the most valuable asset of the corporation is its reputation. When financial managers become unethical in their decisions, generally the company is affected as well as the financial markets. These scenarios are exemplified by several financial crises in the market.

In the case of Titman, Keown, and Martin (2010), the concept is simple. Cash flows as source of value to the firm. Discounted by its required rate of return means its equivalent value, in this case, value of the firm. What then can be use of this differentiation in finance? How can individuals and institutions learned from such exposition?

An individual or an institution will more likely promote maximizing shareholders wealth at the expense of ethical conduct, norms, and behavior as long as the process, the procedure, and implementation were sound, complete, and faithful to the word. Larcker and Tayan (2011b) in their study suggested that several CEOs and directors of failed companies are able to retain outside directorship despite their forced departures. The authors cited former chairman and CEO Charles Prince of Citibank being elected to the board of Xerox, Stanley O'Neill, former chairman and CEO of Merrill Lynch was named director of Alcoa and also appointed to company's audit committee. Companies reasoned that governance failures are not the same as managerial failures and they are hired with the express purpose of taking strategic risk to increase shareholder value. In their paper, they elaborated that 67% of respondents believe that directors of such a company can be a good board member elsewhere suggesting that CEO is held to a higher standard of accountability, given his or her position of leadership.

In a related study of Larcker and Tayan (2011a), they cited that Hewlett Packard struggled to contain the release of confidential information among board members and management regarding strategy, leadership, and corporate structure. The president of HP hired a firm to investigate the matter, which in turn hired a second firm. The strategy was to use a questionable technique called "pretexting" (pretending to be someone else) to obtain the private records of both HP directors and reporters. Larcker and Tayan (2011a) added that the president resigned from the board. The paper however did not elaborate the reason for the resignation of the president.

The exposition directs attention to the potential weakness of the long-term sustainability of the financial market given such perspective. Anything less of the maximum value of the firm is thus assumed to be unethical and undesirable for both the individual and the institution. As to whether the means to achieve the maximum value is ethical, it is not the issue. As to whether the whole process was complete and sound as required by integrity, that may seemed to be not the issue too. The problem however arises because in the process, it defiles the value of integrity.

RESEARCH GAPS

Research can be conducted to further appreciate the understanding of integrity, leadership, and its link value maximization in finance.

1. Power in integrity as demonstrated or not demonstrated by leadership has not been completely captured in the understanding of integrity. Ideas, relationships, and power in relationships in the form of empowerment are some of key factors known to improve efficiency and may enhanced innovation among systems, designs, implementation, and use within organizations. Empirical studies can be conducted to validate and determine relevant attributes and characteristics significant to value maximization in microfinance.

2. Value maximization in finance is not rocket science issue. Standard procedures and formulations are defined with accuracy, the challenge is approximating a definitive valuation model, reflective of previously ignored variables like integrity, empowerment, and power in relationships of any design, implementation, and use.

CONCLUSIONS

Several significance can be implied in the understanding of integrity, leadership, and its link value maximization in finance.

1. The review reveals that integrity cannot be imposed, nor can it be taught, neither can organizations transform integrity through training, seminars, and other short courses. It is by instinct of an individual's choice and is a function of one's belief and conviction.

2. Consequently, the review admits that if an organization is to choose between a competent leader without integrity and an incompetent leader with integrity, organizations and institution alike must adhere for the latter. Integrity with accountability and transparency are key factors, which more often exhort leadership into its highest form. Assuming a specific definition of integrity yields complications, the idea nevertheless elevates the importance of leadership. It is the leader who defines and sets the meaning of integrity or the lack of integrity in any organization thus, allowing prompt and concrete resolution to conflicts, confusions, and problems at any point in time.

3. Power enables others to do what others believe impossible, what others perceive to be waste in time, resources, and effort. It exists in the context of relationships between people, between organizations, and power in relationships can change. An empowered leader is as crucial as robust value per share.

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