Integrity Systems

Professor Seumas Miller, Director, ANU Division, Centre for Applied Philosophy and Public Ethics: An Australian Research Council Special Research Centre
Moral/Ethical Issues & CAPPE Research Projects

- Conceptual issues, e.g. CAPPE authored books on nature of justice, moral relativism, morality of money
- Anti-corruption systems in organizations, e.g. CAPPE’s ARC Linkage grant on business ethics in China, ARC Linkage grant on integrity system for Victoria Police
- Human Rights problems, e.g. CAPPE’s ARC Linkage grant on female poverty, ARC Discovery on terrorism
- Ethics of science and technology, e.g. CAPPE’s EU 7th Framework grant on ethical and regulatory issues in synthetic genomics, NSF grant on privacy/security
- Global issues e.g. CAPPE’s ARC Future Fellowship on climate change
Ethical Problems of the Will vs Ethical Problems of the Intellect

- Some ethical problems exist at the level of will but not principally as intellectual problems.
- Gross corruption and human rights abuses are problems for the will; there is no serious intellectual dispute concerning their moral rightness or wrongness.
- Other ethical problems are genuinely intellectually challenging, e.g., Is voluntary euthanasia morally wrong and, if so, under what circumstances?
- Manifest wrongdoing (problems for the will) gives rise to problems of means for the intellect, e.g., There is a moral imperative to combat terrorism, but should we do so by increasing police powers and, if so, which powers?
- Need for multi-disciplinary practitioner-focused research.
Methodology of Designing-in Ethics

- Ethical principles and perspectives are designed-into (Jeroen van den Hoven’s term) institutions and artefacts, e.g. separation of judiciary from legislature

- Dynamic designing-in ethics model emphasises need to create or expose additional options, e.g. CCTV cameras ubiquitous (security enhancing) but restricted access to footage (privacy rights respected)

- Interdisciplinary/practitioner input

- Limitations of design model, e.g. moral limits on designing human beings

Enforced Law/Regulation and Integrity

- Criminal justice system **enforces** moral norms
- Over-regulation e.g. centralised/bureaucratic economy
- Under-regulation, e.g. GFC (CAPPE’s ARC Linkage on financial regulation) innovative financial products, ‘shadow banking system’ of non-depository banks
- Over and under-regulation, e.g. police organisations need external oversight agency with investigative powers and streamlined complaints and discipline system
- Framework problems, e.g. in global financial regulatory framework national governments—and regulatory authorities—are not simply umpires, they are also players in the corporate financial “game” eg. U.K. govt and Financial Services Authority
Markets and Integrity

- Pursuit of self-interest under conditions of fair competition promotes common good by way of invisible hand, e.g. increase in food production, new medicines
- Tragedy of commons, e.g. climate change
- Perverse incentive structures, e.g. enormous executive remuneration for taking risks with other people’s money
- Redesigning market structures to ensure invisible hand delivers common good, e.g. emissions trading scheme
- Redesign economic incentive structure for pharmaceutical companies in relation to research into poverty-related diseases (Thomas Pogge’s Health Impact Fund)
Reputation and Integrity

- Professions involved in GFC - investment bankers, financial advisors, lawyers, and auditors
- Reputational risks of unethical behaviour, eg. auditing firm loses reputation for honesty/accuracy/independence then collapse (Arthur Anderson in wake of Enron)
- Credit rating agencies enhance/diminish reputation of financial actors by ascribing ratings e.g. AAA.
- Key notion is deserved, i.e. warranted, reputation.
- Reputation ought to track actual financial health
- Credit rating agencies ought to provide assurance of this
Reputation and Ethics

- Ethics reputation not identical with reputation for high performance e.g. Bolt fastest 100m
- Difficult to separate in practice e.g. surgeons’ report cards (CAPPE’s NHMRC project)
- Morality/ethics integral to business/professions, e.g. dishonesty, incompetence, unreliability, unhealthy or unsafe products, trust of clients, customers, employees, suppliers etc, confidentiality, criminality, corruption, concerns re environment
- Reputation = field size x familiarity x favorability
- Segmentation, e.g. within occupation, in media
Integrity systems exist to reduce crime and corruption, and promote institutional virtues.

Integrity systems include both reactive mechanisms, (e.g. police agencies, corporate fraud investigation units), and preventative means, (e.g. ethics education, elimination of perverse incentives)

Holistic integrity systems involve integrated mix of reactive and preventative mechanisms

Seumas Miller, Peter Roberts and Ed Spence *Corruption and Anti-corruption* (Prentice Hall, 2005) Chapter 7
Holistic Integrity Systems 2

- Integrity systems utilize enforceable laws/regulations, e.g. criminal law
- Integrity systems utilize competitive markets, e.g. defective vehicles reduce market share
- Integrity systems utilize reputation e.g. Corporate Social Responsibility audits
- Holistic integrity systems involve integrated mix of regulation/markets/reputational mechanisms
- Workable integrity systems presuppose a degree of commitment to shared ethical standards on part of relevant community e.g. members of profession, public
- Workable integrity systems presuppose not necessarily an equality of power, but at least an absence of massive, lopsided and unrestrained power relationships
Reputation

- A key feature of effective integrity systems for occupations and organizations is utilization of reputation to ensure compliance with ethical standards.
- Some occupations and organizations are more sensitive to ethical reputational loss than others.
- Those entrusted to make prudent decisions with other people’s money are inevitably heavily dependent on a good reputation, e.g. bankers.
- Also those entrusted to provide independent adjudications re financial health, e.g. auditors.
Utilizing Reputation

- Need to ensure that ethical reputation aligns with actual ethical practice, i.e., that an organization’s high or low reputation is deserved i.e. warranted
- Means to achieve alignment between de facto reputation and warranted reputation is an appropriate integrity system
Reputational Audits

- Key element of integrity system is reputational index
- A reputational index involves an ethics audit that:
  (i) awards scores in relation to specific ethical standards
  (ii) promulgates the results to the public.
- There are three elements in play:
  - reputation;
  - self-interest; and
  - ethical standards such as compliance with technical accounting standards, avoidance of conflicts of interest, client/consumer protection, employee health/safety, environmental
Virtuous Triangle

- Three elements need to interlock in Virtuous Triangle.
  - First, reputation is empirically linked to self-interest e.g. individuals desire for approval, organizations suffer financially from low ethics reputation.
  - Second, reputation ought to be linked to ethical standards in that reputation ought to be warranted; integrity systems are the means to achieve this.
  - Third, as result of above two links, self-interest is indirectly linked to ethical standards via reputation.
  - If integrity system mobilizes warranted reputational concerns, then in self-interest to meet ethical standards.
Reputational Indexes and Objectivity

- Reputation Indexes: ethics audit needs method of accurately measuring the ethical performance of organizations

- **Objective** measures of ethical performance e.g. results of consumer satisfaction surveys; gross numbers of warranted complaints and trends thereof; numbers of disciplinary matters and their outcomes; outcomes of financial, health and safety, environmental, anti-corruption systems audits (e.g. regarding electronic crime and corruption vulnerabilities); existence of institutional processes established to assure compliance with ethical standards, e.g. codes of ethics and conduct, financial and other audit processes, ethics committees, complaints and disciplinary systems, fraud and ethics units, ethical risk assessment processes, ethics and compliance officers, professional development programs in ethics.
Participation and Promulgation

- While reputational indexes include some indicators of compliance with those ethical standards (and associated processes of assurance) that are enshrined in law, they also include indicators of adherence to ethical standards that are above and beyond what is legally required, e.g. environmentally friendly, robust complaints system.

- Ethical reputation should reflect findings of ethics audit.

- Importance of participation of as many occupational members and industry organizations as possible in ethics audits, and by the widespread promulgation to key stakeholder groups of the results of their de facto ethical performance (ethics audit scores), including in media.
Challenges

- Re participation: mandatory use of reputational indexes by members of professional or industry groups (on pain of exclusion from the relevant professional or industry association).

- Results promulgated more or less detailed eg overall rating as opposed to a complete description of the ethics audit results.

- Challenge of effectiveness, e.g. ‘tick-the-box’ processes by well-resourced organizations avoiding compliance with ethical standards in favor of window-dressing.

- Need for meaningful ethical audits conducted by independent, well resourced, professionally trained, ethics auditors.
Example - Professional Standards Council

- Organizations such as the Professional Standards Council (PSC) in Australia are important participants in this process of ethico-professionalisation; the conferring of good reputation is central to the PSC’s role.

- PSC offers capped liability to occupational groups in exchange for their establishment of integrity systems.

- So financial incentive to occupational groups to join a scheme and, thereby, reduce their insurance premiums.

- PSC also offers a kind of ethical accreditation to occupational groups via its Cover of Excellence scheme; groups establishing an appropriate integrity system are awarded a Cover of Excellence.
PSC and Utilizing Reputation

- PSC establishes and reinforce dependence between good reputation and existence of an effective integrity system.
- PSC is doing so by approving its Cover of Excellence schemes for those occupational associations that have put in place appropriate integrity systems e.g. codes of ethics, complaints and discipline processes.
- CAPPE research revealed that PSC needs to do more to strengthen this dependence between good reputation and possession of an effective integrity system, e.g. by introducing reputational indices for members of an occupational group, and corresponding ethics audits.
- Andrew Alexandra and Seumas Miller *Integrity Systems for Occupations* (Ashgate, 2010)