

# Chapter 6

## Exploring the Multifaceted Relationship of Compliance and Integrity—The Case of the Defence Industry



Job Timmermans

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**Abstract** Over the years, compliance has come to be closely associated with integrity. Originally, compliance foremost had been understood as abiding by (financial) law and regulation as a prerequisite to pursuing an organization's operational goals. In response to societal developments and corruption scandals this perspective gradually has shifted. Despite the increased importance and consecutive academic attention of the seemingly self-evident relationship between compliance and integrity, a dedicated analysis of this relationship is still lacking. Such an analysis not only will increase our theoretical understanding of the underlying concepts and how they evoke each other, but practically its insights may also help to increase the effectiveness of managing compliance and integrity within organizations. This contribution, therefore, conducts a conceptual analysis into the relationship between compliance and integrity. First, the meaning of compliance and integrity as individual concepts is discussed, followed by a comparison of the two concepts. The commonalities and differences that come to the fore then act as a stepping stone to unpack the various ways the concepts of compliance and integrity invoke each other. Based on this discussion a basic analytic framework is drawn up that summarizes the different valuations of the relationship between compliance and integrity. To illustrate their

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practical relevance, the different valuations depicted by the framework are illustrated with an example drawn from the defence industry. It concludes by discussing the implications of the analysis and suggesting some possible routes for further research.

**Keywords** Compliance · integrity · management · defence industry · ethics · business ethics · conceptual analysis

## 6.1 Introduction

Over the years, compliance has come to be closely associated with integrity (or its synonym in this context ‘ethics’). For example, on the websites of (large) companies such as Daimler and Boeing as well as on other formal outlets such as code of conducts, these two terms are discussed as a fixed combination. Also in academic discourse, the relationship between compliance and integrity has received ample attention. Starting with a seminal article by Paine in 1994, there have been several publications addressing these two terms.<sup>1</sup>

Notwithstanding the current obviousness of their association, the relationship between compliance and integrity has not always been self-evident. Originally, compliance foremost had been understood as abiding by (financial) law and regulation as a prerequisite to pursuing an organization’s operational goals (i.e., business targets).<sup>2</sup> At that time, broader moral connotations identified with ethics and integrity thus still were largely absent.

In response to societal developments and corruption scandals this perspective gradually has shifted. Societal developments such as a raised awareness of environmental and sustainability and citizen empowerment have broadened the responsibilities of organizations to consider their societal impact.<sup>3</sup> Moreover, major corporate corruption cases such as the Enron scandal and more recently Dieselgate have made clear that legal compliance by itself is insufficient to prevent unacceptable/undesirable behaviours.<sup>4</sup> In response, governments and the organizations themselves have broadened their understanding of compliance to include rules and legislation that deal with societal and ethical issues. So, whereas compliance traditionally focused on financial accounting and auditing, nowadays it includes topics such as environment and sustainability, privacy and data security, and not in the least (organizational) integrity.

The defence industry has been no exception to these developments. Apart from being affected by the general societal developments just mentioned, the defence industry has had its own share of scandals and (resulting) societal and political

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<sup>1</sup> Chun 2019; Kaptein 2015; Treviño et al. 1999; Weaver and Trevino 1999; Weber and Wasieleski 2013.

<sup>2</sup> Paine 1994; Pellizzoni 2004.

<sup>3</sup> Painter-Morland 2015; Schwartz and Carroll 2003.

<sup>4</sup> Bovens 2016; Windsor 2017.

pressure to (self-)regulate its behaviour. For instance, In the US, for decades, defence contractors defrauded the military and the Pentagon.<sup>5</sup> This led to an investigation and recommendations by the Packard Commission in 1986, which in turn led to the establishment of the Defense Industry Initiative (DII) on Business Ethics and Conduct to improve compliance.<sup>6</sup> In a similar vein, in the UK, a corruption scandal involving BAE Systems, Europe's largest armaments company, led to tightening up corresponding legislation.<sup>7</sup> Apart from particular cases, leading developments in trade export regulation also greatly affected the defence industry, such as the emerge of the International Trade in Arms Regulations (ITAR) in 1976<sup>8</sup> and in 2000 the European Commission's Dual-use Regulation.<sup>9</sup>

Despite the increased importance and consecutive academic attention of the seemingly self-evident relationship between compliance and integrity, a dedicated analysis of this relationship is still lacking. Such an analysis not only will increase our theoretical understanding of the underlying concepts and how they evoke each other but practically, its insights may help to increase the effectiveness of managing compliance and integrity within organizations. In this contribution, we therefore conduct a conceptual analysis of the relationship between compliance and integrity.

We start by discussing the meaning of compliance and integrity as individual concepts, followed by a comparison of the two concepts. The commonalities and differences that come to the fore then act as a stepping stone to unpack the various ways the concepts of compliance and integrity invoke each other. Based on this discussion a basic analytic framework is drawn up that summarizes the different valuations of the relationship between compliance and integrity. To illustrate their practical relevance, the different valuations depicted by the framework are illustrated with an example drawn from the defence industry. We conclude by discussing the implications of our analysis and suggesting some possible routes for further research.

## 6.2 The Concepts of Compliance and Integrity

In this section, the terms compliance and integrity are introduced and compared with each other. The similarities and differences that are brought forward will act as a stepping stone to further explore the relationship between the two terms in the following section.

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<sup>5</sup> Biegelman and Biegelman 2008; Roberts 2009.

<sup>6</sup> Kurland 1993.

<sup>7</sup> Heissner 2015; Stohl and Grillot 2009.

<sup>8</sup> Nosanov 2009.

<sup>9</sup> Wetter 2009.

## 6.2.1 Compliance

In the business and management literature, the term compliance is widely used.<sup>10</sup> Still, apart from some specialist discussions among legal researchers,<sup>11</sup> there is a consensus about the meaning of the term. The basic meaning of compliance is a conformity of behaviour with legal rules.<sup>12</sup> Both an individual or a group of individuals such as the organization the individuals belong to may act as the subject of compliance. The regulation applying to a company, ultimately demand that the individuals working for that company conform to those rules. Although in its basic meaning compliance refers to legal rules, the object or content of compliance may be much broader, ranging from the adherence to laws, rules and regulations to standards and codes of conducts.<sup>13</sup> In the defence industry companies not only have to adhere to formal trade regulation but typically have a code of conduct in place to guide their conduct. As such the imperative standard that is being complied with, can be a regulatory requirement (law, or legal standard), or a normative requirement, that is, based on contractual, social, or cultural standards.<sup>14</sup>

Compliance is understood as referring to a state of being or status, as well as to an act or process. Compliance as a status refers to the state of being in accordance with rules, legislation or guidelines.<sup>15</sup> This state requires there to be a reasonable correspondence between legal rules or guidelines (i.e., the object of compliance) and the behaviour of those to whom they are addressed (i.e., the subjects of compliance).<sup>16</sup> The actuality of this state can be determined either internally (first-party) via self-assessment or externally by a second party audit on a customer or contracted organization, or third party audit, for example, by a certification body.<sup>17</sup>

Compliance as an act or process refers to what the subject of compliance does to attain or retain the state of compliance. In the first instance, compliance entails the subject's observance of relevant laws, regulations and corporate policies<sup>18</sup> by meeting their demands and procedures.<sup>19</sup> Subjects failing to obey legal and moral rules, then, are deviating from compliance.<sup>20</sup> Seen from a wider perspective, compliance also can be understood to entail detecting non-compliant behaviour and reducing the opportunity to display such conduct.<sup>21</sup>

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<sup>10</sup> Heissner 2015; Manning 2020.

<sup>11</sup> Howse and Teitel 2010; Kingsbury 1998.

<sup>12</sup> Kingsbury 1998.

<sup>13</sup> Silverman 2008.

<sup>14</sup> Manning 2020.

<sup>15</sup> Biegelman and Biegelman 2008, p. 2.

<sup>16</sup> Kingsbury 1998.

<sup>17</sup> Manning 2020.

<sup>18</sup> Biegelman and Biegelman 2008.

<sup>19</sup> Manning 2020; Rasche and Esser 2006.

<sup>20</sup> Windsor 2017.

<sup>21</sup> Verhezen 2010.

In sum, compliance refers to both the act and the resulting state of an individual or a collective such as an organization (the subject of compliance), behaving conform set regulatory or normative requirements (the object of compliance).

## 6.2.2 Integrity

Similar to compliance, integrity is a widely-used term both in business practice and literature.<sup>22</sup> However, unlike compliance, integrity is a more ambiguous term and there is far less consensus about its meaning.<sup>23</sup> Over the past decades, several authors have sought to address this and bring some clarity to the meaning of the concept. The first to take on this matter in a systemic manner are Audi and Murphy. Based on a review of the literature, they construct a framework to support making ‘appeals to integrity clearer and more effective’.<sup>24</sup> Their paper concludes by suggesting that any discussion of integrity should start with a clarification of what one means by it. Following up on their suggestion, Palanski and Yammarino conducted a comprehensive review of the various meanings of integrity in management literature.<sup>25</sup> This resulted in a classification of integrity into five general categories. The most recent contribution was given by Orlitzky and Monga,<sup>26</sup> who elaborate on the five categories, among others by referring to seven conditions for integrity suggested by Maak.<sup>27</sup> For our current purpose of exploring the relationship between compliance and integrity, it is not necessary to rehearse the intricacies of the discourse on integrity. Instead, a summary of the main distinctions made by the authors suffices to get a general understanding of the different meanings that are being attributed to integrity in the literature.

Most discussions of integrity in the literature begin by reflecting on the Latin root of the term, *integritas*.<sup>28</sup> This term translates into wholeness or completeness, which corresponds with the common meaning of integrity as the quality or state of being complete.<sup>29</sup> Like compliance, the subject of integrity does not have to be an individual person but may also be an organization. This is referred to by the literature as organizational integrity.<sup>30</sup> Apart from having a different context, the meaning of integrity at a personal or an organizational level are considered to be very similar.<sup>31</sup>

<sup>22</sup> Audi and Murphy 2006; Orlitzky and Monga 2017.

<sup>23</sup> Audi and Murphy 2006; Bauman 2013; Palanski and Yammarino 2007; Vandekerckhove 2010.

<sup>24</sup> Audi and Murphy 2006, p. 3.

<sup>25</sup> Palanski and Yammarino 2007.

<sup>26</sup> Orlitzky and Monga 2017.

<sup>27</sup> Maak 2008.

<sup>28</sup> Audi and Murphy 2006; Orlitzky and Monga 2017; Petrick and Quinn 2000; Verhezen 2010.

<sup>29</sup> <http://www.merriam-webster.com/>, accessed 23 November 2013; <http://www.oed.com/>, accessed 23 November 2013.

<sup>30</sup> Manning 2020; Paine 1994; Verhezen 2010.

<sup>31</sup> Verhezen 2010.

The wholeness-perspective on integrity ties in with the first of two constitutive understandings of integrity distinguished by Audi and Murphy in their framework.<sup>32</sup> They define integrity in the integrational sense as a certain kind of unity of character. It calls for disciplined adherence to moral standards and motivates and facilitates moral reasoning and ethical conduct. Although integrity in this wide, integrational sense is important in maintaining good character and conduct, it is by itself not sufficient as it lacks moral content. Content is provided by their second understanding of integrity, integrity in the *artaic* or virtuous sense. In this understanding, integrity is identified either with specific moral virtues such as trustworthiness or loyalty or to virtue in general, for example, when integrity is referred to as an overarching super-virtue. Together these two meanings of integrity offer a framework that supports both scholars and managers in making their appeals to integrity more clearly and effectively.

Building on this framework, Orlitzky and Monga construct a classification of integrity made up of five general categories.<sup>33</sup> The first category, integrity as wholeness, coincides with the common meaning of integrity and with the first meaning of the Audi and Murphy framework. This notion of integrity refers to the overall person, requiring overall consistency of behaviour, thoughts, and emotions across time and contexts. The next three categories offer a further refinement of what consistency should entail. The second category, consistency of words and actions, also known as behavioural consistency, calls for consistency across time and situations between espoused and enacted values. The third category, consistency in adversity, suggests that persons of integrity should stand for something and remain steadfast when confronted with adversity, (moral) challenge or temptation. It requires one to resist unethical temptations or choices even at a high personal cost. The fourth category, authenticity, adds further nuance to the former two categories, by requiring one to be true to oneself, which means understanding, owning one's deeply held values and acting accordingly. It thus adds to the second category that one's words must be consistent with one's deeply held values.

Again, these first three categories of integrity can be criticized for lacking moral substance. A Nazi, for instance, may always be acting in accordance with his words, which in turn may be in alignment with his inner convictions. This is remedied by the fifth category, integrity as moral or ethical behaviour, which is a precondition for the other four categories and ties in with the second meaning of integrity by Audi and Murphy, integrity in the *artaic* sense. This category requires one's actions to be in accordance with socially or morally acceptable behaviour. In line with Audi and Murphy, such behaviour may refer to particular virtues one must possess or the related values on which such behaviour needs to be based, such as justice, respect, fairness, trust and empathy, or virtue and moral standards or principles in general.<sup>34</sup>

An important addition to these five categories, referred to by Palanski and Yammarino, is offered by Maak.<sup>35</sup> In his discussion of integrity, he discusses seven

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<sup>32</sup> Audi and Murphy 2006.

<sup>33</sup> Orlitzky and Monga 2017.

<sup>34</sup> Audi and Murphy 2006.

<sup>35</sup> Maak 2008.

conditions that need to be met to attain a state of being undivided or an integral whole: commitment, conduct, content, context, consistency, coherence, and continuity ('7 Cs'). Most of these conditions closely match the five categories discussed so far. Two conditions, however, shed further light on the concept of integrity. In his discussion of coherence, Maak distinguished between internal and external coherence. Whereas internal coherence coincides with the category of authenticity, external coherence refers to what others demand from a person in terms of getting one's principles and actions right. This way, Maak highlights the fact that integrity is not just a personal notion, but a social or relational notion as well.<sup>36</sup> This social dimension of integrity is reaffirmed by the condition of context. The integrity-condition of context draws attention to having consideration for all relevant others including stakeholders and relationships.

All in all, similar to compliance, integrity can be understood to represent a state, namely the state of being 'integer' or whole or being a person of integrity. Apart from an individual, also an organization can be the subject of integrity. Rather than being a state, integrity more commonly is referred to as an act or process. To act with integrity then denotes acting in accordance with high moral standards consistently even when confronted with adversity, or temptation, and at high personal cost. The five categories—integrity as wholeness, consistency of words and actions, consistency in adversity, being true to oneself, and moral/ethical behaviour—further clarify what acting with integrity may entail. Integrity not only is an individual notion referring to the state of the subject itself, but also a social notion that refers to what relevant others are demanding of the subject.

### 6.3 Comparing Compliance with Integrity

To understand how the concepts are related, we first need to look into what unites and what separates the two concepts. To this end, we turn to the literature on ethics management. In this literature compliance and integrity are discussed as two separate strategies to manage the behaviour of organizational members towards stable, acceptable and/or desirable behaviour.<sup>37</sup> In ethics management compliance and integrity thus find their common point of departure, namely a shared purpose in managing or governing organizational conduct.

Traditionally, the dominant way of managing ethics in organizations equates with the compliance or rule-based strategy. Dissatisfaction by legislators and scholars with this strategy gave rise to an alternative strategy, called the integrity strategy<sup>38</sup> or

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<sup>36</sup> Kaptein 1999.

<sup>37</sup> Maesschalck 2004; Paine 1994; Roberts 2009; Treviño et al. 1999; Weaver and Trevino 1999.

<sup>38</sup> Confusingly, by some authors (e.g., Silverman 2008; Stucke 2014) and in organizational practice the term 'ethics' sometimes is used instead of 'integrity' to denote the principle-based strategy. Conform what is prevalent in the business ethics literature, in this chapter we employ the term 'integrity strategy'.

principle-based ethics management.<sup>39</sup> A myriad of reasons has been brought forward to underpin the suggested transition.

On the negative side, the compliance strategy has been accused of involving window dressing (i.e., being more directed at public relations and complying with regulations than at maintaining high standards).<sup>40</sup> Furthermore, it is associated with undermining an organizations' ethical culture. For instance, as an incentive-based approach, the compliance strategy also promotes incentives to violate the law when the costs of mitigating illegal behaviour outweigh promoting an ethical culture<sup>41</sup> and by its reliance on fear it may result in moral silence.<sup>42</sup>

Additionally, it engenders a minimalist approach to ethics management that does not encourage considering the full range of issues that individuals are confronted with nor the broader, longer-term implications of their actions.<sup>43</sup> Rather, organizations are focussed on meeting narrow legalistic requirements of effective compliance,<sup>44</sup> leaving little room for the individual conscience,<sup>45</sup> taking moral responsibility or creating passion and moral excellence.<sup>46</sup>

On the positive side, the integrity strategy is lauded for promoting ethical culture within organizations.<sup>47</sup> It motivates individuals to be aware of legal or ethical issues, increases their willingness to report ethical or legal problems or violations and raises their commitment to the organization.<sup>48</sup> What is more, it was found that under an integrity-based strategy individuals are more likely to refrain from unethical/illegal behaviour.<sup>49</sup> On the organizational level, the integrity strategy is associated with aligning the organization with societal expectations of relevant stakeholders, engendering the quality of life within organizations, and ultimately, providing new opportunities and increased organizational value.<sup>50</sup> Besides, integrity-based ethics programs are believed to improve decision making in organizations.<sup>51</sup> They stress the importance of thinking long-term and are better equipped to support dealing with complex problems or a new context where the rules are different.<sup>52</sup>

To be able to meet its aspirations and remedy the apparent flaws of the compliance strategy, the integrity strategy distinguishes itself from the compliance strategy on several accounts. In the first instance, the difference between the two strategies is best

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<sup>39</sup> Calderón et al. 2018; Paine 1994; Roberts 2009; Stucke 2014; Verhezen 2010.

<sup>40</sup> Geddes 2017; Roberts 2009.

<sup>41</sup> Stucke 2014.

<sup>42</sup> Verhezen 2010.

<sup>43</sup> Roberts 2009; Stucke 2014.

<sup>44</sup> Stucke 2014.

<sup>45</sup> Roberts 2009.

<sup>46</sup> Verhezen 2010.

<sup>47</sup> Stucke 2014.

<sup>48</sup> Geddes 2017; Treviño et al. 1999; Verhezen 2010.

<sup>49</sup> Treviño et al. 1999.

<sup>50</sup> Verhezen 2010.

<sup>51</sup> Treviño et al. 1999.

<sup>52</sup> Verhezen 2010.



understood by comparing their underlying behavioural assumptions. The compliance strategy is part of the (neo)classic economic paradigm of the ‘homo economicus’, in which man is viewed as an autonomous, rational optimizer motivated solely by (material) self-interest.<sup>53</sup> This coincides with a cost-benefit approach to decision making on the individual as well as the organisational level in which the autonomous rational agent pursues its self-interest within the legal boundaries set by the state (or other types of standards of regulations within an organization). Hence, the emphasis in this strategy on monitoring, detection, and punishment.<sup>54</sup> The integrity strategy is part of the alternative economic paradigm, sometimes termed the extended approach,<sup>55</sup> that regards individuals as social beings who, next to self-interest are guided by peers, and values and ideals such as altruism, courtesy, civic virtue, conscientiousness, and sportsmanship.<sup>56</sup> Moving beyond the deterrence model prevalent under the classic paradigm, individual or collective behaviour is understood here to be driven by both extrinsic and intrinsic motivations. In addition to conventional cost-benefit thinking, behaviour then is guided by moral obligation and social influence.<sup>57</sup>

Under its basic assumptions, the compliance strategy’s ethos entails conforming with externally imposed standards to govern organizational and individual behaviour such as laws, rules, regulations, standards, and codes of conduct.<sup>58</sup> It, therefore, has a coercive orientation towards control aimed at bringing individual behaviour into conformity with set (legal) standards by placing emphasis on adhering to rules, monitoring behaviour and disciplining transgressions.<sup>59</sup>

By contrast, and in line with its basic assumptions, the integrity strategy’s ethos involves self-governance according to chosen, hence internal, standards, values or principles.<sup>60</sup> Control, in this case, therefore is internal or self-control resting on the individual and/or collective agent’s moral character and judgment capacity.<sup>61</sup> Rather than on coercion, it is based on a commitment to and identification with shared (organizational) values and moral standards.<sup>62</sup>

Finally, the assumptions and ethos are reflected in the respective objectives of the two strategies. Whereas the compliance strategy only is aimed at preventing unwanted/criminal behaviour, the integrity strategy’s aim is much broader by seeking to enable (socially) responsible conduct.<sup>63</sup>

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<sup>53</sup> Manning 2020; Paine 1994; Stucke 2014.

<sup>54</sup> Stucke 2014.

<sup>55</sup> Sutinen and Kuperan 1999.

<sup>56</sup> Manning 2020; Paine 1994; Roberts 2009.

<sup>57</sup> Sutinen and Kuperan 1999.

<sup>58</sup> Paine 1994; Silverman 2008.

<sup>59</sup> Maesschalck 2004; Weaver and Trevino 1999; Treviño et al. 1999.

<sup>60</sup> Geddes 2017; Paine 1994; Weaver and Trevino 1999.

<sup>61</sup> Maesschalck 2004.

<sup>62</sup> Silverman 2008; Weaver and Trevino 1999.

<sup>63</sup> Paine 1994; Roberts 2009; Stucke 2014.

The perceived necessity and subsequent development of an alternative strategy, does not mean that the compliance strategy is to be abandoned altogether.<sup>64</sup> Despite the stated advantages of an integrity over a compliance strategy, it is generally acknowledged that elements of compliance are still needed for effective ethics management. It is recognized that ethical talk needs to be supported with action.<sup>65</sup> By holding organizational members accountable for their behaviour through monitoring and disciplinary systems, an organization reinforces its standards, upholds a sense of conformity to shared norms, and maintains the perception of the organization as a just place.<sup>66</sup> Furthermore, even where an integrity strategy is effectively implemented, coercive enforcement measures remain essential to deal with chronic, flagrant violators that foremost are motivated by tangible consequences of their actions.<sup>67</sup> In a similar vein, the greater flexibility of a principled approach in comparison with a rule-based approach may tend to weaken the moral compass.<sup>68</sup> As a consequence, subsequent transgressive behaviour by some can affect others. This gradual erosion can only be reversed or prevented through effective enforcement of (moral) standards.<sup>69</sup> Conversely, it is also argued that an integrity strategy supports a compliance strategy. Compliance goals such as reporting misconduct, for example, benefit from the message of trust and support by a value orientation.<sup>70</sup> Besides, integrity may enhance the understanding of the purpose of compliance activities<sup>71</sup> and increase the perceived legitimacy of the authorities responsible for implementing the regulations.<sup>72</sup>

The compliance and integrity strategies, thus, are not regarded as mutually exclusive.<sup>73</sup> Instead of constituting a simple dichotomy, they are viewed as the opposite ends of a continuum. Within that continuum, a balance needs to be struck such that the strategies mutually reinforce each other and compensate for each-others weaknesses.<sup>74</sup> So, rather than moving away from a compliance strategy, organizations need to transcend and move beyond it. In this way, the (potential) tension between integrity and compliance can force deliberate thinking and better decision-making, for example, about the constraints set by compliance.<sup>75</sup>

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<sup>64</sup> Cf. Stucke 2014.

<sup>65</sup> Weaver et al. 1999.

<sup>66</sup> Treviño et al. 1999.

<sup>67</sup> Sutinen and Kuperan 1999.

<sup>68</sup> Windsor 2017.

<sup>69</sup> Sutinen and Kuperan 1999.

<sup>70</sup> Weaver and Trevino 1999.

<sup>71</sup> Ibid.

<sup>72</sup> Sutinen and Kuperan 1999.

<sup>73</sup> Paine 1994; Weaver et al. 1999.

<sup>74</sup> Calderón et al. 2018; Geddes 2017; Maesschalck 2004; Weaver and Trevino 1999.

<sup>75</sup> Verhezen 2010.

**Table 6.1** Conceptual framework of the relationship between compliance and integrity

Type of relationship	Process	Content
Part of		
Against		
Beyond		

*Source* Timmermans 2021

### 6.4 The Relationship Between Compliance and Integrity

Based on the preceding sections, a three-fold characterization of the relationship between integrity and compliance can be deduced. In part, integrity emerges from the discussion as coinciding with compliance (Sect. 6.4.1). They have a shared overall purpose, and up to a point, have overlapping methods and content. In this sense, compliance can be understood as residing within or being part of compliance (and vice versa). At the same time, partly integrity can also be understood to be positioned outside of compliance. In a negative sense integrity then is in tension with, or even goes against, compliance (Sect. 6.4.2). In this sense, integrity involves acts and produces outcomes that are at odds with compliance. Conversely, in a positive sense integrity can be viewed as being complementary to compliance (Sect. 6.4.3). By going beyond compliance, integrity in this sense broadens the spectrum of ethics management, for example, by offering an ethos and methods that supplement those of compliance.

In addition, from the discussion thus far, two characteristics emerge that capture the variety of similarities and differences between integrity and compliance, namely: (1) process (or act) and (2) content (or object). The different activities and methods of compliance and integrity, for example, are covered by process, while the implied (moral, social or legal) standards fall under content. In this way, ethos can be interpreted to consist of both process, (i.e., mode of governance), and content (i.e., the ‘imposed’ or ‘chosen’ standards). In a similar vein, the aims of compliance and integrity discuss the type of conduct aimed for (content) and, in a broad sense, the manner that aim is to be attained (process). Also, the discussion of who needs to be involved in compliance and/or integrity activities can be framed in this way: the process and content of integrity and compliance denote particular skills and knowledge required by the individuals involved such as staff, leadership and education.<sup>76</sup> Together these three ways of relating compliance and integrity and process and content set up a framework that enables us to further explore the relationship between compliance and integrity systemically (see Table 6.1).

The remainder of the framework is explained more fully by describing the dimensions of process and content for each relationship-type. Building on the theoretic considerations brought forward by the literature each cell is briefly discussed and illustrated by a practical example relevant to the defence industry.

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<sup>76</sup> Paine 1994.

### 6.4.1 *Compliance as a Part of Integrity (and Vice Versa)*

As shown in Table 6.1, the first way to characterize the relationship between compliance and integrity is in terms of two overlapping concepts. This characterization of the relationship can be discussed in two distinct manners, namely by regarding compliance be part of integrity, or vice versa, as integrity to be part of compliance. This and the subsequent subsection each discuss one of these two manners starting with compliance as a part of integrity. This way of understanding the relationship ties in closely with the views by Paine, which first sparked the literature on this subject.<sup>77</sup> Rather than as the ends of a continuum, in her discussion, compliance is depicted as a subset of integrity (i.e., to a large extent the process and content of compliance are also a part of integrity's process and content). Integrity in this view is an extension of the classical economic outlook of compliance.

At a minimum, in line with the (neo)classical perspective, the compliance's object/content sets the threshold (legal) standards an agent needs to comply with to be ethical, beyond that, agents are free to act as they see fit. Under the adage 'If it's legal, it's ethical.', integrity then may go beyond compliance, but not in a way that necessarily restricts the behaviour of an organisation or its members. In the field of military trade, this position can be illustrated by a case of the export of alleged military goods to Libya by the Dutch company Damen Shipyards Group. In the media, it was argued that this trade violated ethical standards (encoded in an EU commissioned code of conduct on arms trade) because the goods were intended and subsequently indeed used for military purposes.<sup>78</sup> The company responded to this allegation by pointing out that it did not do anything wrong as the trade had been submitted to and then permitted by the Dutch Ministry of Foreign Affairs because it did not violate any (trade) laws.

This raises the question of whether this trade, apart from being legally permissible, also counted as acting with integrity. An argument supporting the view of the Dutch ministry is provided by regarding integrity's content (or object) being a part of that of compliance. In this view, legislation (or formal standards) are regarded as solidified or codified ethics. Over time, social and moral values and norms have become engrained in the legislative body. For example, moral considerations about national and homeland security of countries,<sup>79</sup> have contributed to national and international law-making, for instance, national laws on dual-use goods and the small arms treaty by the UN.<sup>80</sup> What is more, over the last decades there has been a trend in which integrity has become part of formal standards or even legally required. Paradoxically, precisely because integrity is considered to be a way to strengthen compliance and remedy its flaws, integrity has become a part of compliance.

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<sup>77</sup> Paine 1994.

<sup>78</sup> Rengers M, Houtekamer C (2018) Gaddafi verdween, maar Damen bleef geliefd in Libië. NRC Handelsblad.

<sup>79</sup> Cornish 1995.

<sup>80</sup> Stohl and Grillot 2009.

The minimalist, (neo)classical view of economy also transfers to the overlap between compliance and integrity in terms of process. According to the classic view, the act of complying would suffice to behave ethically, because legal standards represent what is socially and morally required. Beyond that, an agent is free to act autonomously. Again, this can be illustrated with the Damen case. According to the Ministry of Foreign Affairs and the company, complying with applicable rules suffices to justify the trade of the boats.<sup>81</sup> Regarding the act of complying as part of integrity is in alignment with the understanding of integrity as wholeness or coherence, which requires an agent to hold on to its principles or norms persistently. The act of complying not only is a part of the process of acting with integrity, but compliance also strengthens it by supplementing integrity with accountability through monitoring and disciplining. According to the extended view, however, compliance by itself would not be enough for behaving ethically or may even be at odds with behaving with integrity. So, while the act of complying with a body of (legal, social or moral) standards is considered a part of the process of acting with integrity, it represents only one aspect of acting with integrity. In the Damen case, the media accused the other parties of a lack of consideration and reflection on the moral consequences of the trade beyond 'just' complying with the applicable law.

Conversely, the process of acting with integrity also has a place in the act of complying. Being compliant is not always straightforward. It may involve dealing with ambiguity and contradictions within or between different (legal) standards. For instance, the classification of trade under the Export Administration Regulations (EAR) commissioned by the US Commerce Department offers a different definition of a US person in different sections. Also, a set of rules such as the EAR or EU dual-use rules may be interpreted differently, for instance, in France and the Netherlands, offering difficulties when a dual-use transaction involves both countries. In addition, standards and legislation between different countries (or organizations) may be contradictory. A country such as Iran may be blacklisted by one country, while another country allows trading certain military or dual-use goods with Iran. Lastly, legislation and standards tend to evolve over time, for example, due to geopolitical development or technological innovation. The ITAR is known to shift its domain by either including items that before were considered dual-use or non-military (the so-called ITAR-creep) or vice versa, for example, a heat camera that was first considered a military item and became to be classified as a dual-use item. In these cases, integrity as standing for something and offering moral content such as values and principles offers a bedrock from which such challenges can be met. Also, by offering reflection and moral deliberation, integrity is well-suited to support the legal interpretation and decision-making that negotiating ambiguity within and between standards requires. Furthermore, integrity supports and enhances the effectiveness of compliance more in general, for example, by increasing the motivation and commitment to comply and by establishing an ethical culture.

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<sup>81</sup> Rengers M, Houtekamer C (2018) Gaddafi verdween, maar Damen bleef geliefd in Libië. NRC Handelsblad.

### 6.4.2 *Integrity Versus Compliance*

Besides overlapping, integrity and compliance also can be in tension or at odds with each other, both in terms of their content and process. Although the content that is associated with the concepts in part is overlapping, the content of integrity also is considered to be broader and more encompassing. For example, integrity covers the ground where there is no legal or formal demand to act in a certain way yet there is also legal or formal restriction disallowing certain ways to act. Put in positive terms, the contents of the concepts can be understood to be complementary. This is addressed in the subsequent subsection. Put in negative terms, the content of the two concepts could also be pointing in opposite directions. Behaviour or actions may conform to formal or legal standards yet be at odds with morality or personal convictions. Conversely, what one considers to be moral or socially desirable may go against what is demanded by law or another formal standard.

This opposition corresponds with the idea that the content of integrity is held intrinsically, whereas that of compliance is imposed externally. The content that an agent identifies with and stands for, then, demands the agent to go against what is legally or formally required. Continuing the example about the trading arms to a suspicious country: Despite it being legally permitted by the national authorities and possibly resisting economic pressure, acting with integrity demands that those involved act according to their moral or social convictions and refuse to condone the transaction.

Dealing with this type of dilemmas is considered to be part of integrity, by some authors it is even regarded as a vital characteristic of integrity.<sup>82</sup> The act of complying or the decision of whether to comply or not becomes a matter of integrity. This decision is framed as an internal struggle dealing with the dilemma of conflicting norms or virtues which jeopardizes one's integrity (as a wholeness), for example, in terms of loyalty towards one's employer versus social justice or care for others. In the literature on integrity, this dilemma is analysed by way of conflicting demands set by different kinds of integrity, for instance, moral integrity versus personal integrity or personal integrity versus organizational integrity.<sup>83</sup> To resolve this dilemma, the agent has to go beyond the content of compliance itself and has to draw on morality and social standards.

At the same time, the process of complying involves activities associated with the process of integrity (i.e., deliberating and standing for something as well). Acting with integrity, for example, may either entail the decision to comply with the externally imposed standards or going against them. In the arms trade example, this would mean that those involved in the trade, be it on the government side or the company side, should reflect on the case at hand and explore internally whether carrying on with the trade equates with means acting on their conscience or not.

Nevertheless, the literature discussed above shows that strictly pursuing a compliance strategy makes it more likely that individuals make immoral decisions that

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<sup>82</sup> McFall 1987.

<sup>83</sup> Orlitzky and Monga 2017; Vandekerckhove 2010.

go against their personal or organisational integrity. So, not only is the process of integrity at times a necessary part of the act of compliance, without having integrity in the mix, compliance is prone to motivate undesirable and unethical behaviour. In terms of the military trade example: without integrity being engrained into the organization's ethics strategy, it becomes easier for personnel to just justify their actions based on the minimal legal standards ('if it's legal it's ethical') without further reflection or deliberation.

### ***6.4.3 Integrity Beyond Compliance***

Following Paine, the relationship between integrity and compliance also can be conceived as complementary whereby integrity encompasses compliance and goes well beyond it.

As is discussed above, this is certainly the case for content or object of compliance such as legal or formal standards. By some, the content of compliance is regarded as setting a minimalist standard that is supplemented by integrity's moral and social content. Although legal and formal standards may be considered as a residue of moral deliberation (codified ethics), this residue is practically and principally limited. On the one hand, society and organizations are constantly evolving, for example, through (technological) innovation or (global) political developments. Legislation cannot anticipate these dynamics and therefore necessarily is lagging behind. The vacuum left is filled by integrity that through its aspirational nature is better suited to deal with new situations and cases. On the other hand, in practice, it is not desirable nor attainable to include all acceptable or desirable situations into standards. For example, in liberal democracies, what is considered to be the good life is left to individuals' judgment rather than imposed by (legal) standards. Likewise, the mission and vision of a company are stated in broad, abstract terms rather than detailed norms or guidelines included in corporate standards. So, the ground not covered by compliance, i.e. behaviour that is not legally or formally obliged yet not forbidden, falls into the domain of integrity. Continuing our example, trading military goods with suspicious regimes falls in this category. By not engaging in such a trade, albeit it is legally permitted, one could argue the company goes beyond compliance to act with integrity.

Not only in terms of content integrity and compliance are complementary but also in terms of their processes. In general, the processes associated with integrity are understood to strengthen the commitment and motivation to comply by organizational members and to improve decision making. In our example, integrity as wholeness or standing your ground offers an extra line of defence against pressure by the market or management to make a trade with a suspicious regime. Integrity helps to consider the long-term moral and social consequences beyond the shorter-term financial gains.

The complementary nature of the two concepts relationship in terms of process can be traced back to the difference in terms of the content of integrity and compliance. As discussed above, the standards that have to be complied with may be ambiguous

or contradicting. As a consequence, the act of complying may require interpretation, reflection and deliberation, activities associated with integrity. The (moral) content of integrity such as principles, virtues and values by its nature is more universal and hence abstract and requires reflection and deliberation when they come into play when confronted with a particular decision or dilemma. This way integrity covers ground that is not (yet) covered by compliance. Whereas compliance is acting according to pre-conceived, fixed standards (backwards-looking) integrity's process of reflection and deliberation allows to pro-actively encounter new situations and contexts that go beyond these standards (forward-looking). A weapons manufacturer, for example, may foreclose trading with suspicious regimes, even before national or international rulings formally forbid such transactions.

## 6.5 Conclusion

This chapter started by introducing the question of how to better understand the multifaceted relationship between compliance and integrity. Although this relationship is often invoked, it is taken to be self-evident and lacks systemic attention. To this end, a literature review was conducted into integrity and compliance and the relationship between these two concepts. This learned that the variety of similarities and differences between these concepts is captured by two characteristics: their process or act associated with the concepts and their content or object. Next, from the analysis of the literature on the relationship between compliance and integrity, three archetypical valuations of this relationship emerged: (1) compliance as residing within or being part of compliance and vice versa; (2) compliance at odds/against integrity; and (3) integrity beyond compliance. Using these two typologies as its dimensions (i.e., characteristics and archetypical valuations), a preliminary conceptual framework was developed that re-constructs the relationship between the concepts in a systematic manner. The theoretical and practical relevance of the framework was then discussed, in particular to the domain of the defence industry.

The framework depicts how compliance and integrity concepts invoke each other at different levels. For instance, integrity is required as part of the process of compliance, while the act of complying can be understood as belonging to the activities associated with integrity. Due to this intricate relationship, in designing a compliance strategy, both the process and content of integrity need to be considered. And, likewise, when shaping an ethical culture based on integrity, the act of complying as well as the standards that are part of the object of compliance should be incorporated. Understanding integrity and compliance, either as the two ends of a continuum<sup>84</sup> or as one-sidedly depicting integrity as residing beyond compliance<sup>85</sup> as is common in the literature, does not do justice to the intricacies and multi-layered character of the relationship.

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<sup>84</sup> Geddes 2017; Maesschalck 2004; Verhezen 2010.

<sup>85</sup> Paine 1994.



How this relationship pans out in actual organizational practice is context-dependent. The framework may help to unearth and understand the often implicit (organisational) design choices that underpin the shape the relationship takes in particular real-life situations. Furthermore, considering the dimensions outlined by the framework supports the conscious redesign of the relationship within organizations. For example, understanding how integrity and compliance interact may support the decision-making process of a company about trading military goods or services to a suspicious country. Rather than responding after the fact, when a particular transaction already has caused a public outcry, organizations may pre-empt such affairs by incorporating reflection on what they stand for in relation to what legal standards demand as part of their business processes.

Besides offering a more detailed understanding, the framework aids in pinpointing the aspects of the relationship between compliance and integrity that currently remain underdeveloped. Further research, for example, may shed further light on how integrity and compliance overlap and supplement each other in terms of content and/or process both in theory and in organizational practices. New insights thus gathered, would help to further populate, corroborate and fine-tune the conceptual framework.

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