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ETHICS RESOURCE CENTER'S
NATIONAL BUSINESS ETHICS SURVEY®

AN INSIDE VIEW OF PRIVATE SECTOR ETHICS

2007

Fifth in a longitudinal study of U.S. workplaces

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erc

ETHICS
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Founded in 1922, the Ethics Resource Center (ERC)
is America's oldest nonprofit organization devoted
to the advancement of high ethical standards and
practices in public and private institutions. For more
than 85 years, ERC has been a resource for public
and private institutions committed to a strong ethical
culture. ERC's expertise also informs the public dia-
logue on ethics and ethical behavior. ERC research-
ers analyze current and emerging issues and produce
new ideas and benchmarks that matter — for the
public trust.

For more information about ERC, please visit our
website at *www.ethics.org*.

Visit our website and sign up to receive additional
reports in the National Workplace Ethics Study
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National Government Ethics Survey

National Nonprofit Ethics Survey

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The findings and conclusions of this report are those of the Ethics Resource Center alone and do not represent the views of the corporate and individual sponsors of this research project.

ABOUT
the Ethics Resource Center's 2007 National Business Ethics Survey®

Since 1994, the Ethics Resource Center has fielded the National Business Ethics Survey, a nationally representative poll of employees at all levels, to understand how they view ethics and compliance at work.

The NBES® has become the national benchmark on organizational ethics. It is the country's most rigorous measurement of trends in workplace ethics and compliance, a snapshot of current behaviors and thinking, and a guide in identifying ethics risk and measures of program effectiveness. This 2007 report is the fifth in the series.

Over the years, ERC has polled more than 13,500 employees through NBES. It is the most exacting longitudinal research effort examining organizational ethics from the employee perspective. The long-term nature of the study is important because it provides a context for national trends. The NBES is the only longitudinal study that tracks the views of employees at all levels to reveal real-life views of what is happening within organizations and the ethics risks they face.

This report is one part of a larger workplace survey conducted by ERC in 2007. ERC polled a total of 3,452 employees in the business, government and nonprofit sectors. The responses of the 1,929 respondents in the business sector have been isolated and are presented here. In the near future, similar reports covering the government and nonprofit sectors will be released.

Methodology

Participants in the 2007 NBES were 18 years of age or older, currently employed at least 20 hours per week for their primary employer, and working for an organization that employs at least two people. They were randomly selected to attain a representative national distribution. All interviews were conducted via telephone, and participants were assured that their individual responses to all survey questions would be confidential.

Interviews were conducted from June 25 through August 15, 2007.

Survey questions and sampling methodology were established by ERC; data collection was managed by the Opinion Research Corporation (ORC). For additional information about ORC, please see page 32. Analysis by ERC was based upon a framework provided by the Federal Sentencing Guidelines for Organizations; the Sarbanes-Oxley Act of 2002; and professional experience in defining elements of formal programs, ethical culture, risk, and outcomes.

The sampling error of the findings presented in this report is +/- 2.2 percent at the 95 percent confidence level.

For a detailed explanation of methodology and the methodological limitations of this report and for demographic information on survey participants, visit *www.ethics.org*.

FOREWORD

As the Ethics Resource Center presents the findings of its 2007 National Business Ethics Survey (2007 NBES), the fifth in its benchmark series, we are more aware than ever that the world of "ethics" has moved far beyond the world of "compliance." Equally important, the study reveals that understanding and measuring an organization's ethical behavior is absolutely central to the risk equation that every business now faces — and to the value that it brings in the financial and commercial marketplace.

As business leaders, policy-makers, investors, consumers and others are increasingly concerned about the vibrancy of the capital markets and the responsible delivery of products and services, we decided to break out the findings from the business sector — based on 1,929 responses that are representative of the entire U.S. workforce — and present them separately in this report. *We believe that a dedicated focus on ethical beliefs and behavior within U.S. businesses will provide insight into the risks they face, the ways in which these risks can be mitigated, and a pathway for future change.*

Since this research began in 1994, we have learned a great deal about employees' experiences in and perceptions of their workplaces. By synthesizing new data and our previous findings, we are able to make stronger conclusions than in any past NBES report.

It is our hope that the 2007 NBES will empower and challenge business leaders to do a better job in guiding companies to operate with integrity. As the NBES proves, it can be done; there is a way to achieve meaningful results.

Similar reports highlighting the 2007 findings in the government and nonprofit sectors are soon forthcoming. We hope that they, too, will help leaders in these areas enhance their ethical environments.

The 2007 NBES also offers a new tool for companies and their leaders that juxtaposes actual incidence of various types of misconduct from the employees' perspective and how the misconduct was handled in terms of employee reporting. Misconduct that is most prevalent and least reported poses the greatest risk to organizations, and several forms of misconduct — including abusive behavior and lying to employees — pose the most severe risk. We look forward to sharing this tool, the ERC Ethics Risk Index[SM], with individual companies so they can benchmark their risk against relevant peers and identify the specific areas that present the greatest vulnerability.

This year, the NBES offers both good and bad news, and quantifies the findings in a way that makes them applicable to businesses of all size.

The good news:

- The number of formal ethics and compliance programs is on the rise. Furthermore, in companies with well-implemented programs, there is increased reporting, reducing ethics risk.

- The 2007 NBES has been able to show definitively that companies that move beyond a singular commitment to complying with laws and regulations and adopt an enterprise-wide ethical culture dramatically reduce misconduct.

- The 2007 NBES has identified the characteristics that comprise an effective ethical culture, providing a blueprint for individuals within companies responsible for corporate governance and compliance.

The bad news:

- Ethical misconduct in general is very high and back at pre-Enron levels — during the past year, more than half of employees saw ethical misconduct of some kind.

- Many employees do not report what they observe — they are fearful about retaliation and skeptical that their reporting will make a difference. In fact, one in eight employees experiences some form of retaliation for reporting misconduct.

- The number of companies that are successful in incorporating a strong enterprise-wide ethical culture into their business has declined since 2005. Only nine percent of companies have strong ethical cultures.

By many indications in this research, what seems to matter most is the extent to which leaders intentionally make ethics a part of their daily conversations and decision-making, supervisors emphasize integrity when working with their direct reports, and peers encourage each other to act ethically.

It is important to note that the 2007 NBES would not be possible without the generous support of our benefactors. We wish to thank the corporations and individuals who made the NBES possible through their financial contribution to ERC. We encourage other companies and individuals to join the effort to promote high ethical standards and conduct in public and private institutions by supporting our research. We also would like to thank the 2007 NBES Advisory Group (p. 31) for their insights and advice.

The Ethics Resource Center's 2007 National Business Ethics Survey provides much food for thought. It also offers a great deal of information and many insights that can be used by all who are interested in increasing business integrity and minimizing ethics risk. We look forward to continued exploration and quantification of these issues, to hearing from more employees in years to come, and to sharing the insights we gain along the way.

Patricia J. Harned, Ph.D.
President, Ethics Resource Center

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The Quality of Your Ethics and Compliance Program Matters.
Ethics and Compliance Programs Yield Positive Results
If They Are Well-Implemented

■

Coupling a Strong Ethical Culture with a Strong Ethics
and Compliance Program Is the Path
to the Greatest Reduction in Ethics Risk

■

The Reward to Your Company, Employees,
and Stakeholders Can Be Quantified

The Ethics Landscape Is Treacherous — Corporate America Is at Great Risk.

The study looked at ethics risk, defined as the incidence and reporting of misconduct. More than half of employees witnessed an act of misconduct in their company within the past year. The most prevalent forms of misconduct were conflicts of interest (putting one's own interests above the organization), abusive or intimidating behavior, and lying to employees. More than two in five employees who observed misconduct did not report what they saw. Without effective reporting, company management may have no knowledge about misconduct and cannot take measures to prevent future occurrences and ensure that such problems are properly addressed. The situation is ripe for another major corporate scandal.

Employees who don't report misconduct are held back by feelings of futility and fear. Even when employees trust management, other factors drive the decision to report misconduct and over-ride that trust. The survey found that employees' feelings of futility — that their reporting won't make an impact — coupled with fear of retaliation discourage many employees from reporting misconduct.

Ethics risk is most effectively reduced by an enterprise-wide *cultural* approach to ethics that extends beyond a compliance mentality. A strong cultural approach focuses on ethical leadership, supervisor reinforcement, peer commitment to ethics, and embedded ethical values. The NBES research found that companies that feature a strong enterprise-wide cultural approach to ethics reduce misconduct by three-fourths and virtually eliminate retaliation at all levels.

Well-implemented formal ethics and compliance programs dramatically increase reporting of observed misconduct and also help to decrease the rate of misconduct. However, the 2007 NBES® identified that only 25 percent of companies have a well-implemented ethics and compliance program in place.

Companies that couple a strong ethical culture with a well-implemented ethics and compliance program experience the greatest reduction in ethics risk.

■ The strength of a company's enterprise-wide ethical culture has the greatest impact on misconduct.

■ The strength of a company's formal ethics and compliance program has the greatest impact on encouraging employee reporting.

■ Together, culture and programs maximize ethical behavior and appropriate reporting in the workplace.
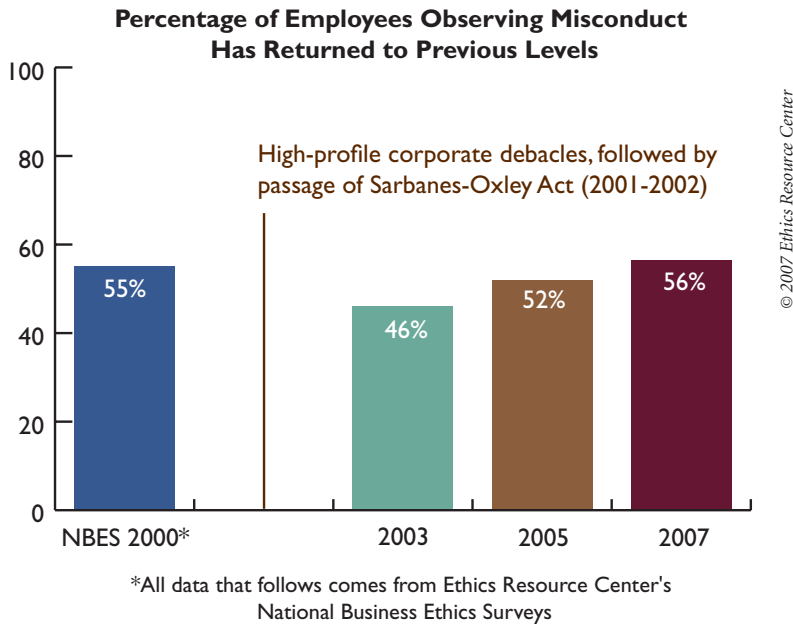
KEY FINDINGS
from Ethics Resource Center's 2007 National Business Ethics Survey

The Ethics Landscape Is Treacherous — Corporate America Is at Great Risk.

More than five years after Enron and other corporate ethics debacles, businesses of all size, type, and ownership show little — if any — meaningful reduction in their enterprise-wide risk of unethical behavior. The situation is ripe for another major corporate scandal. Despite new regulation and significant resources now dedicated to decreasing misconduct and increasing reporting of misconduct, *the ethics risk landscape in business is as treacherous as it was before implementation of the Sarbanes-Oxley Act of 2002.*

> **High Rates of Misconduct**
> **✚ Low Management Awareness**
> **✚ Few Ethics & Compliance Programs**
> **═**
> **Treacherous Ethics Landscape**

■ **High rates of misconduct.** In the past 12 months, more than half (56 percent) of employees personally observed conduct that violated company ethics standards, policy, or the law.

Percentage of Employees Observing Misconduct Has Returned to Previous Levels

High-profile corporate debacles, followed by passage of Sarbanes-Oxley Act (2001-2002)

NBES 2000*: 55%
2003: 46%
2005: 52%
2007: 56%

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*All data that follows comes from Ethics Resource Center's National Business Ethics Surveys

The top three types of observed misconduct reflect personal lapses, rather than organizational violations that further the company's agenda. Nevertheless, all pose significant risk to company reputation, value, and growth. They are:

➲ Conflicts of interest: putting one's own interests above the organization (observed by 23 percent of employees);

➲ Abusive or intimidating behavior (observed by 21 percent of employees); and

➲ Lying to employees (observed by 20 percent of employees).

Note: The total number of acts of misconduct, as well as the types of misconduct, varied in each year (2000=11 different kinds of misconduct, 2003=9, 2005=16, and 2007=18). Additional analysis revealed that the average number of different kinds of misconduct observed, relative to the number asked about, has also increased.

KEY FINDINGS

- **Misconduct is even more common in negative work environments.**
  The 2007 NBES measured six elements of a negative work environment:

  - Lack of satisfaction with information from top management;

  - Lack of trust that top management will keep promises and commitments;

  - Lack of satisfaction with information from supervisors;

  - Lack of trust that supervisors will keep promises and commitments;

  - Lack of trust that coworkers will keep promises and commitments; and

  - Rewards for employees who are successful, even if it is through questionable means.

This analysis revealed that, as workplaces become more negative, more employees witness at least one incident of misconduct. In the most negative workplaces, almost all employees observed at least one incident of misconduct in the previous twelve months. One in five workplaces has at least three elements of a negative work environment.

**As Work Environment Increases in Negativity
More Employees Observe Misconduct**
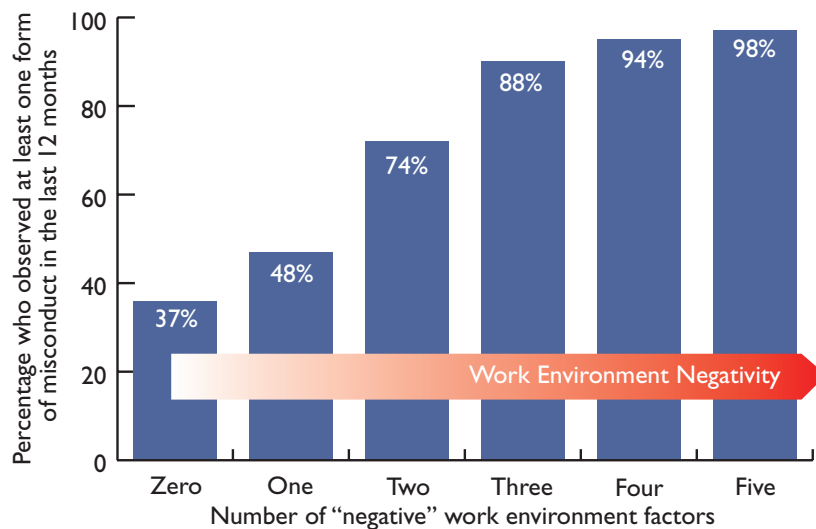
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Note: The x axis refers to aspects of a work environment which measure whether employees feel insecure and/or uninformed and the extent to which they believe that employees who achieve objectives through questionable means are rewarded. The "five" or "six" element groups have been collapsed to increase the N size. When five elements are present, 96 percent of employees observe misconduct, whereas 100 percent of employees do when six elements are present.

■ **Management may have no knowledge about misconduct that occurs.** As a result, it cannot take measures to prevent future occurrences and ensure that misconduct is properly addressed.

➲ **Considerable lack of employee reporting of misconduct.** Despite an uptick in reporting in 2003 and a slight increase in 2007, many employees still do not report misconduct that they observe. More than two in five employees who saw misconduct did not report it.

Sizable Percentage of Employees Still Do NOT Report Observed Misconduct

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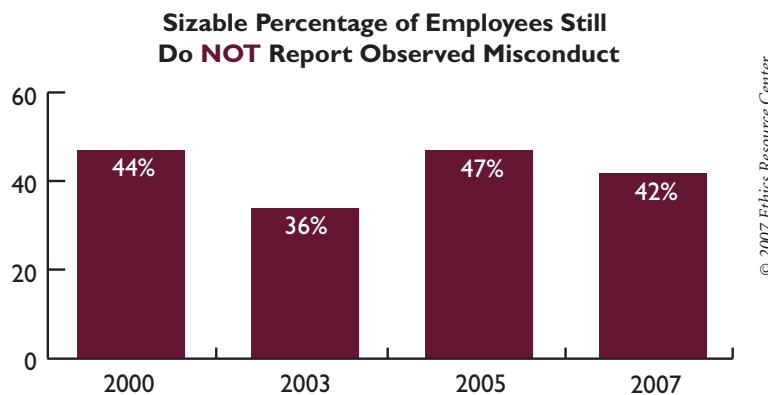
➲ **Many employees take matters into their own hands, avoiding official channels.** More than one-third who saw misconduct chose to resolve the issue themselves rather than reporting through official company channels. Two in five of these employees did not report because they would have had to report the misconduct to the person involved, and one in four were not aware of any mechanism to report anonymously.

➲ **Employees are not using established hotlines to report.** Regardless of the type of behavior observed, the 2007 NBES found that employees prefer to talk with a person with whom they already have a relationship.

Employees Prefer Reporting to Supervisors or Management

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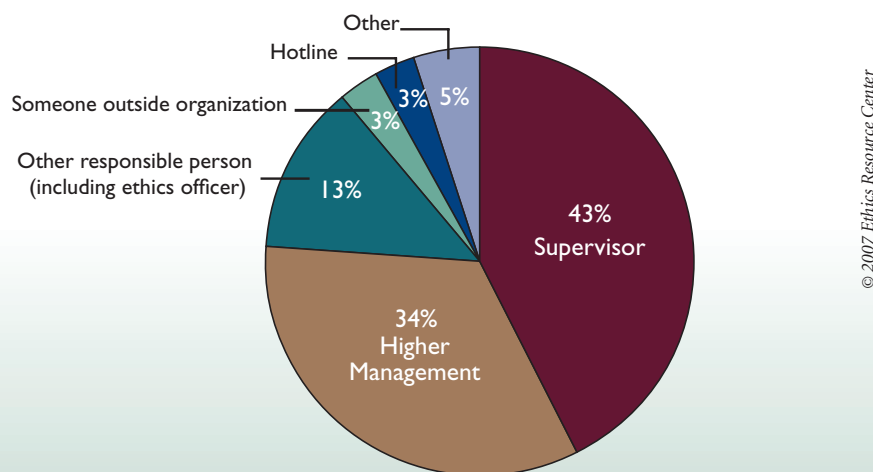
Due to rounding, totals may not equal 100 percent.

KEY FINDINGS

■ **Relatively few comprehensive ethics and compliance programs in place.**
In companies with comprehensive ethics and compliance programs[1], only 29 percent of employees fail to report misconduct they observe, in contrast to 61 percent in companies with no formal ethics and compliance programs. Nevertheless, still less than 40 percent of employees state that their company has a comprehensive program in place. With the implementation of the Sarbanes-Oxley Act and the other new laws, regulations, and listing requirements in recent years, it is not surprising that comprehensive ethics and compliance programs are more common in publicly-traded companies (55 percent) than privately-held companies (27 percent).

Trend Continues: Under Half of Employees Identify Existence in Own Company of ALL Elements of Ethics & Compliance Program

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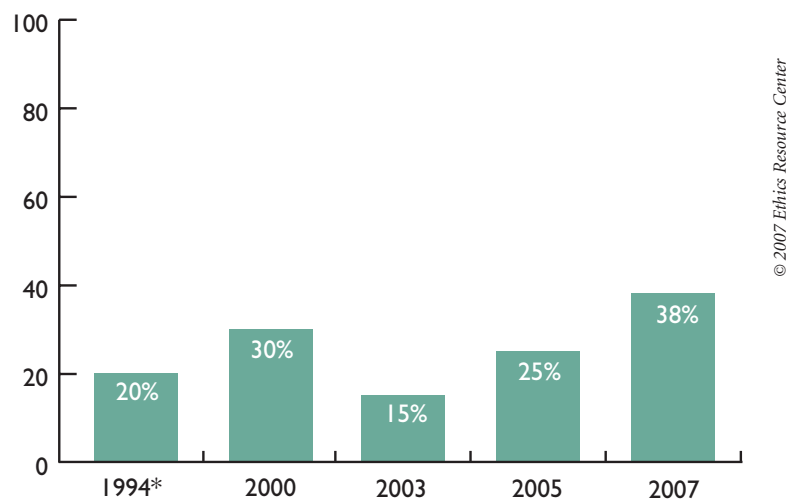
*1994 study asked about two elements and the 2000 study asked about three elements of an ethics compliance program compared to six elements in 2003-2007.

Most ethics and compliance programs are driven by legal and regulatory demands and designed in reaction to past mistakes; as a result, they focus on teaching employees what they *must avoid*, rather than addressing what employees *should do*. Accordingly, most ethics and compliance programs feature elements mandated by law or regulation (code, hotline, and discipline). Companies are much less likely to have implemented training, evaluation, and advice lines, which are encouraged but not mandated by regulation (through the Federal Sentencing Guidelines for Organizations).

[1] *For more information about regulation comprehensive ethics and compliance programs, please see "Additional Findings" p. 20.*

More Companies Implement Ethics & Compliance Program Elements Telling Employees What MUST Be Avoided, Rather Than What SHOULD Be Done

Category	Percentage
Discipline for violators	88%
Code of conduct	83%
Hotline for reporting	80%
Ethics training	75%
Evaluation of ethical behaivor	67%
Mechanism for advice	65%

Must Avoid ← → Should Do
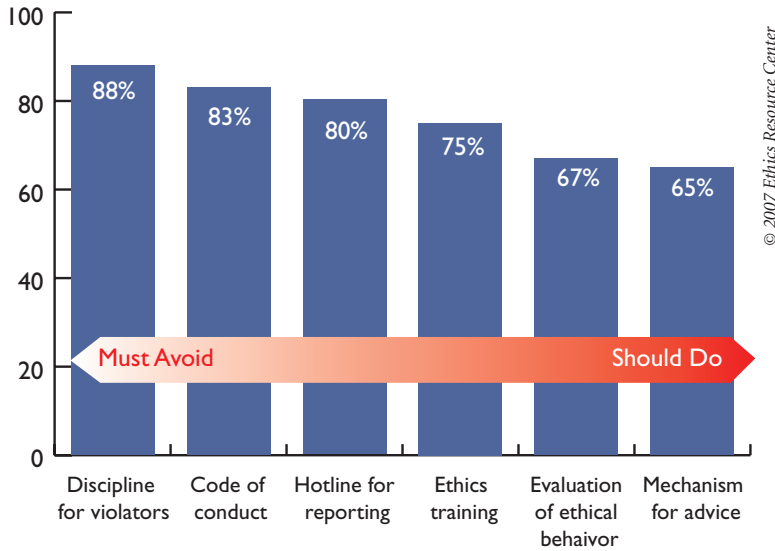
■ **Only one in four companies has a well-implemented ethics and compliance program.** Although employees in many companies indicate that some elements of an ethics and compliance program are in place, only one-fourth indicate that:

➲ They are willing to seek advice about ethics questions that arise;

➲ They feel prepared to handle situations that could lead to misconduct;

➲ Employees are rewarded for ethical behavior;

➲ Their company does not reward success obtained through questionable means; and

➲ They feel positively about their company.

For analysis, these characteristics were used to determine how well the ethics and compliance program was implemented.

Only One in Four Companies Has a Well-Implemented Ethics & Compliance Program
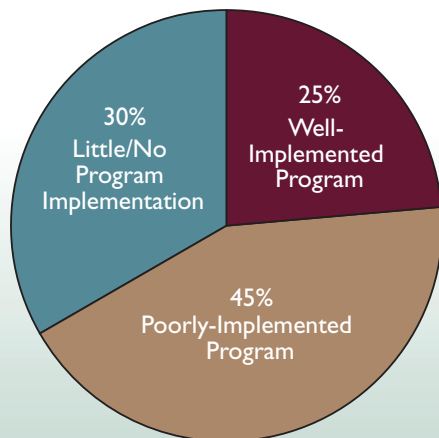
- 30% Little/No Program Implementation
- 25% Well-Implemented Program
- 45% Poorly-Implemented Program

The Employee Futility and Fear Factors Increase the Risk.

Most employees (54 percent) who did not report the misconduct they witnessed were skeptical that their report would make a difference. More than a third (36 percent) of non-reporters feared retaliation from at least one source. *Futility and fear are the two major psychological motivators behind an employee's personal decision not to report misconduct.*

■ **Trust in company leadership not enough.** The Ethics Resource Center's 2007 National Business Ethics Survey found that the vast majority of employees believe that management, supervisors, and coworkers actively support ethical behavior and can be trusted. However, when faced with the personal decision to report misconduct, feelings of futility and fear often overshadow this trust.

■ **The retaliation trust/fear/reality disconnect.** Most employees believe that management does not tolerate retaliation against reporters; nonetheless, fear of retaliation is a primary reason that employees do not report. One in eight reporters actually did experience retaliation; while any amount of retaliation is troubling, far fewer experience retaliation than fear it.

The Retaliation Trust/Fear/Reality Disconnect

80 percent believe that management does not tolerate retaliation

BUT

36 percent of those who didn't report feared retaliation

BUT

only 12 percent of those who did report experienced retaliation
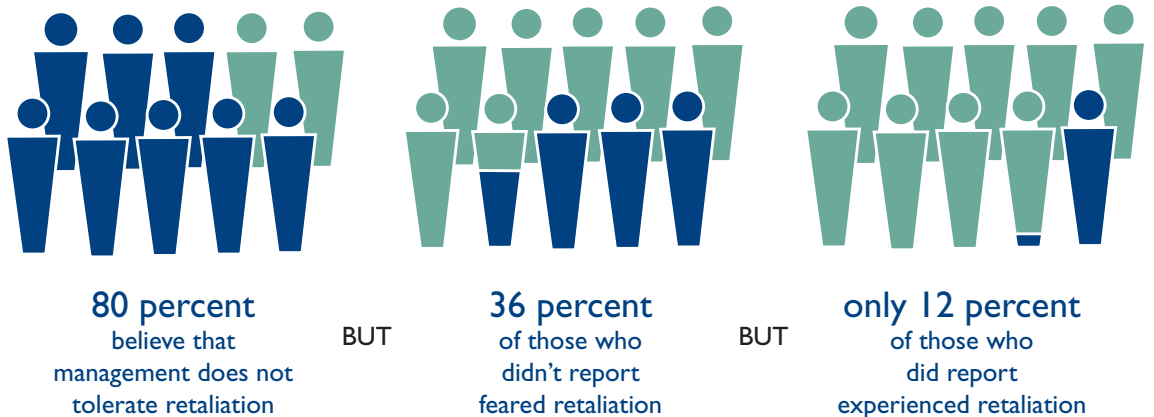
Conflicts of Interest, Abusive Behavior & Lying to Employees Pose Most Severe Ethics Risk to Companies in 2007.

Quantifying specific types of misconduct in terms of prevalence and employee reporting sheds light on ethics risk faced by U.S. businesses.

The Ethics Resource Center has developed, from the perspective of employees at all levels in companies, the ERC Ethics Risk Index^{SM} to capture risk in both U.S. business in general and at the individual company level. The ERC Ethics Risk Index exposes the likelihood that a particular kind of misconduct is occurring and is going unreported; it does not address the severity of each particular kind of misconduct and its potential impact on the company.

Rate of Misconduct

+

Rate of Reporting

=

Level of Ethics Risk

At A Glance

Ethics Risk Can Be Effectively Quantified from *Employee Perspective* — Allowing Companies to Assess Company Risks From the Inside

Companies can learn about the ethics risks they face by assessing how often misconduct occurs and is reported.

Conflicts of interest, abusive behavior, and lying to employees pose most severe risk.

While the ERC Ethics Risk Index presents data in a continuum, the projected risk of various types of misconduct falls generally into three categories: severe risk (happens frequently and usually goes unreported), high risk (happens often and often goes unreported), and guarded risk (happens less frequently and may go unreported).

■ Conflicts of interest (employees putting themselves above their company), lying to employees, and abusive or intimidating behavior pose **severe risk** to companies this year.

■ Companies face **high risk** in the areas of Internet abuse, misreporting hours, lying to stakeholders, discrimination, safety violations, improper hiring practices, sexual harassment, stealing, and provision of low quality goods or services.

Ethics Risk Index^{SM}

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SEVERE RISK

Putting own interests ahead of org ●
Lying to employees ●
Abusive behavior ●

HIGH RISK

Stealing/Internet abuse ●
Misreporting hours worked ●

Lying to stakeholders ●
Discrimination ●

Safety violations ●

Improper hiring practices ●
Sexual harassment ●
Provision of low quality good and services ●

GUARDED RISK

Environmental violations ●
Misuse of confidential org info ●
Alteration of documents ●
Alteration of financial records ●
Bribes ●
Using competitors' inside info ●

ALL BUSINESS

Ethics Risk Index^{SM} *is a measure of incidence and reporting.*

The Good News Is That Ethics Risk Can Be Effectively Reduced.

The Ethics Resource Center's 2007 National Business Ethics Survey reveals that ethics risk diminishes when a company adopts an enterprise-wide cultural approach to business ethics.

This is an environment that builds and reinforces an ethical culture, rather than a single-minded emphasis on compliance with laws, regulations, and company standards. An enterprise-wide cultural approach to business ethics creates a workplace in which ethical behavior occurs for reasons beyond deterrence and sanctioning by authority.

- **Four elements shape ethical culture:** ethical leadership, supervisor reinforcement, peer commitment to ethics, and embedded ethical values.

- **Only nine percent of companies in the U.S. today have strong ethical cultures.** *Despite some gains in the wake of attention to corporate scandals in 2001 and 2002, over the past few years, the percentage of companies with weak and weak-leaning cultures has returned to pre-Enron levels.* Despite some progress in 2005, the number of companies with strong ethical cultures has fallen to the historic average.

Strength of Ethical Culture Declines in 2007

	2000	2003	2005	2007
Strong Culture	9%	9%	10%	9%
Strong-Leaning Culture	43%	51%	47%	43%
Weak-Leaning Culture	36%	32%	34%	36%
Weak Culture	12%	8%	8%	11%

Due to rounding, totals may not equal 100 percent.

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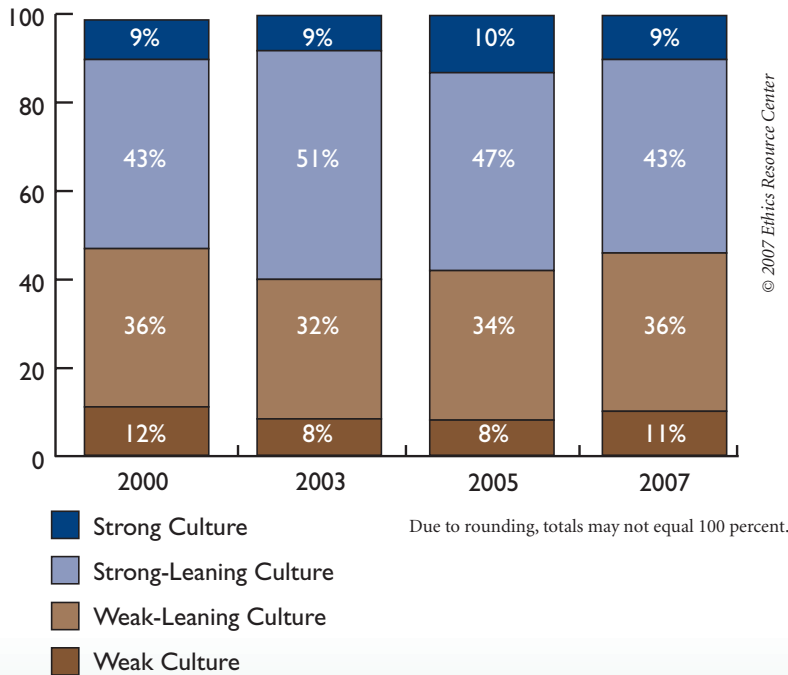
- **The lack of commitment to strong cultures** coupled with the increased tendency toward weak cultures has likely led to the rise in observed misconduct and deep reticence of employees to report.

Four Components of a Strong Enterprise-Wide Cultural Approach to Business Ethics

1. Ethical leadership: tone at the top and belief that leaders can be trusted to do the right thing.

2. Supervisor reinforcement: individuals directly above the employee in the company hierarchy set a good example and encourage ethical behavior.

3. Peer commitment to ethics: ethical actions of peers support employees who "do the right thing."

4. Embedded ethical values: values promoted through informal communications channels are complementary and consistent with a company's official values.

■ **A strong enterprise-wide ethical culture** dramatically decreases misconduct, increases the likelihood of reporting, and reduces retaliation against employees who report.

➲ Twenty-four percent of employees observe misconduct in strong cultural environments — three-fourths fewer than in weak cultures (98 percent), and well below the national average.

➲ Only three percent of employees working in companies with strong ethical cultures who reported misconduct experienced retaliation as a result, compared to the 39 percent who experienced retaliation in weak cultural environments.

The ERC Ethics Risk Index improves dramatically for companies with strong cultures. *No misconduct falls into the severe or high risk categories.*

Ethics Risk Improves Dramatically in Companies With Strong Ethics Culture

U.S. Average

SEVERE RISK

Putting own interests ahead of org
Lying to employees
Abusive behavior

HIGH RISK

Stealing/Internet abuse
Misreporting hours worked

Lying to stakeholders
Discrimination

Safety violations

Improper hiring practices
Sexual harassment
Provision of low quality good and services

GUARDED RISK

Environmental violations
Misuse of confidential org info
Alteration of documents
Alteration of financial records
Bribes
Using competitors' inside info

ALL BUSINESS WITH WEAK CULTURE

- Lying to employees
- Abusive behavior
- Discrimination
- Lying to stake holders
- Misreporting hours worked
- Safety violations
- Putting own interests ahead of org
- Improper hiring practices

- Sexual harassment
- Stealing/Provision of low quality good and services
- Environmental violations
- Internet abuse

SEVERE RISK

- Misuse of confidential org info
- Using competitors' inside info

- Alteration of financial records

All data plotted with red dots are only for visual reference. Actual data plots much further off the chart.

RISK

- Bribes/Alteration of documents

ALL BUSINESS WITH STRONG CULTURE

GUARDED RISK

- Internet abuse
- Putting own interests ahead of org
- Safety violations/Stealing
- Lying to stakeholders
- Abusive behavior
- Misuse of confidential org info/Misreporting hours worked
- Provision of low quality goods and services
- Improper hiring practices
- Sexual harassment/Discrimination/Alteration of financial records
- Alteration of documents/Using competitors' inside info
- Bribes/Lying to employees/Environmental violations

At A Glance

Ethics Risk Is Reduced By Enterprise-Wide Cultural Approach to Ethics

Fewer than 1 in 10 companies in the U.S. has a strong enterprise-wide culture.
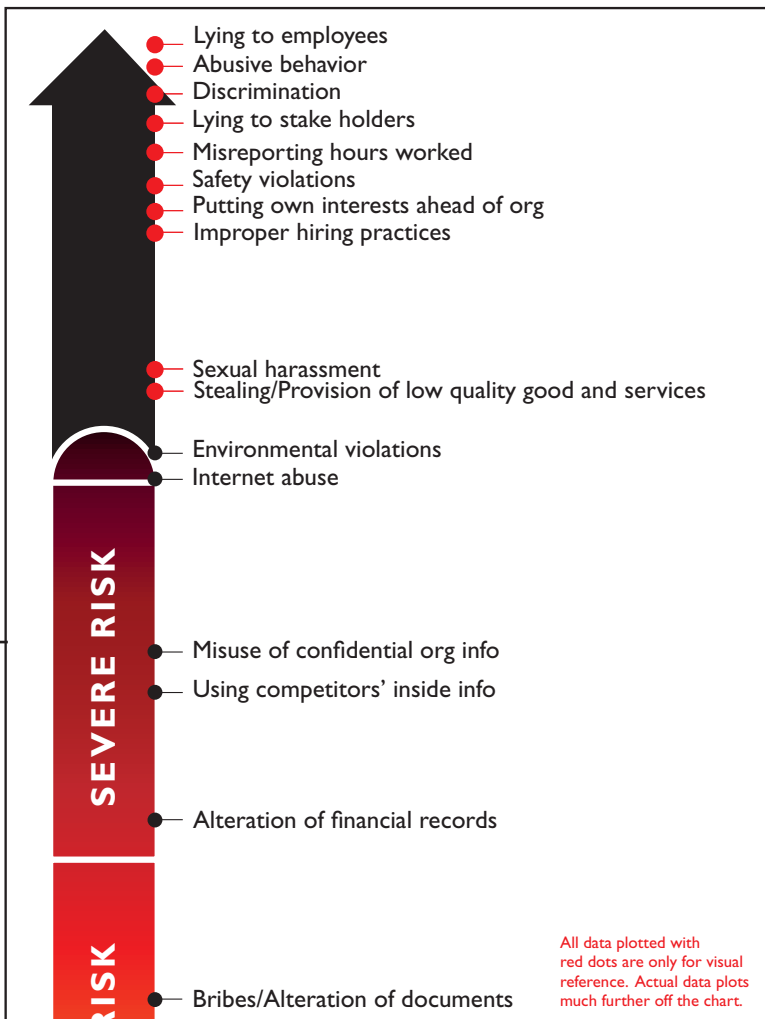
Number of companies with weak ethical culture is as high as before Enron and the passage of the Sarbanes-Oxley Act of 2002.

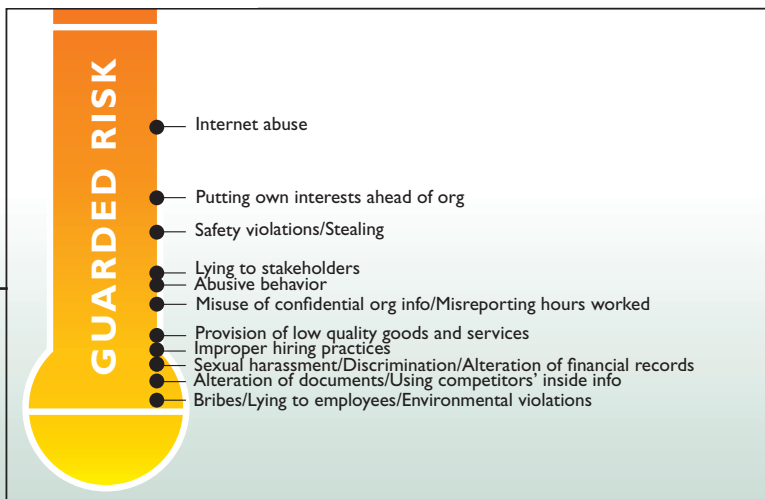Effect of enterprise-wide cultural approach is very significant.

- Misconduct cut by three-fourths.

- Retaliation virtually eliminated.

Ethics risk profile in companies with strong cultures shows no misconduct posing severe or high risk.

At A Glance

Strong Ethical Culture + Well-Implemented Ethics and Compliance Program = Greatest Reduction in Ethics Risk.

Strength of the enterprise-wide ethics culture is the single factor with the greatest impact on misconduct.

The ethics and compliance program has a greater impact on reporting than the ethical culture does.

Companies that want to reduce their risk, by reducing the amount of misconduct and increasing reporting, should put efforts toward both effectively implementing an ethics and compliance program and encouraging an enterprise-wide commitment to ethical culture.

[2] *Due to small N sizes with this particular analysis, we used a different method of determining the strength of ethical culture. "Strong" ethical culture refers to those respondents whose scores on our ethical culture index are in the top 25 percent, while "weak" ethical culture in this analysis refers to those respondents who scored in the bottom 30 percent on our ethical culture index.*

[3] *Interestingly, companies with weak ethical cultures and well-implemented ethics and compliance program have the highest rates of reporting. This may be because employees in stronger ethical cultures address the issues themselves rather than through official channels. This is a finding that merits additional research.*

Strong Ethical Culture + Well-Implemented Ethics and Compliance Program = Greatest Reduction in Ethics Risk.

The Ethics Resource Center's 2007 National Business Ethics Survey reveals that both a well-implemented ethics and compliance program and a strong ethical culture significantly reduce rates of observed misconduct.

■ **Strength of the enterprise-wide ethics culture is the single factor with the greatest impact on misconduct.** Well-implemented ethics and compliance programs reduce misconduct slightly, but an effective focus on ethical culture reduces misconduct to roughly one-third to one-half the rate of companies with weak[2] ethical cultures. For example, in companies with little or no ethics and compliance program, 96 percent of employees in companies with weak ethical cultures witnessed at least one incident in the last 12 months, compared to only 35 percent of employees working in strong ethical cultures.

Strong Ethical Culture Reduces Observed Misconduct

+

Well-Implemented Program Increases Reporting

=

REDUCED ETHICS RISK

■ **The ethics and compliance program has a greater impact on reporting than the ethical culture does.** Reporting rates are much higher among employees whose companies have well-implemented ethics and compliance programs.[3] Reporting rates nearly double in companies that have well-implemented ethics and compliance programs in place. For example, in companies with strong ethical cultures, only 35 percent of employees whose companies have little or no ethics and compliance program report the misconduct they observed, compared to 66 percent of employees whose companies have well-implemented ethics and compliance programs.

■ **Companies that want to reduce their ethics risk, by reducing the amount of misconduct and increasing reporting,** should put efforts toward both effectively implementing an ethics and compliance program and encouraging an enterprise-wide commitment to ethical culture.

Additional Findings

The 2007 NBES reveals a vast amount of information that can be useful to business leaders, ethics and compliance practitioners, academic experts, public policy-makers, employees, investors, and consumers. The following findings, presented in some detail, augment the highlights discussed in the previous section. They are included to help enable these groups to assess and enhance ethical business activity.

Employees Have Bleaker View of Corporate America Than of Their Own Companies

The 2007 NBES shows employees feel far better about their own companies than they do about corporate America as a whole. Almost three in four employees gave their own companies' commitment to ethics an "A" or "B." Only one in five employees felt as positively about the ethics of corporate America.

Employees Grade Ethics of Own Companies Better than the Ethics of Corporate America

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■ Corporate America Ethics

■ Company Ethics

Due to rounding, totals may not equal 100 percent.
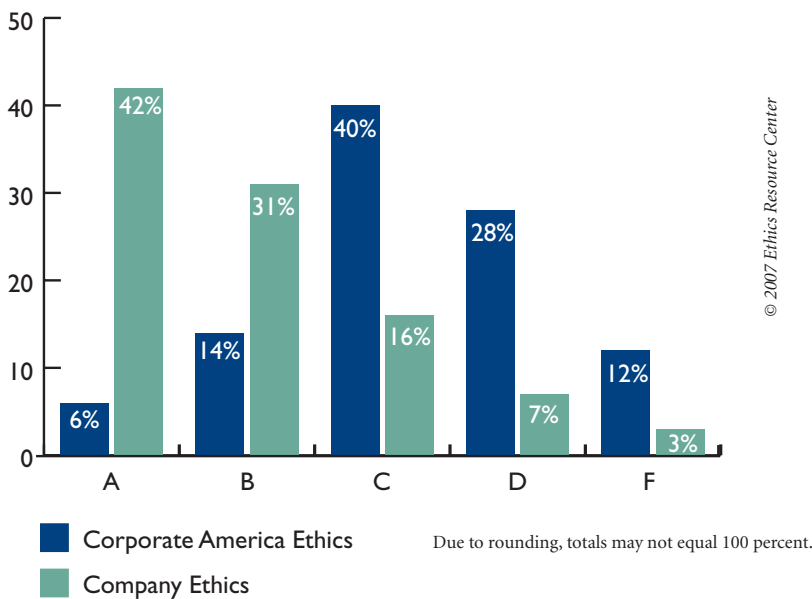
ADDITIONAL FINDINGS

Observed Misconduct: Rates Vary By Type, But Virtually No Improvement Overall

The misconduct most frequently seen by employees in 2007 tends to reflect personal lapses[4] rather than violations which further the organization's agenda.

Most Common Types of Misconduct Observed by Employees are Personal

Type	Percentage
Putting own interests ahead of org	22%
Abusive behavior	21%
Lying to employees	20%
Misreporting hours worked	17%
Internet abuse	16%
Safety violations	15%
Lying to stakeholders	14%
Discrimination	13%
Stealing	11%
Sexual harassment	10%
Provision of low quality goods and services	10%
Improper hiring practices	10%
Environmental violations	7%
Misuse of confidential org info	6%
Alteration of documents	5%
Alteration of financial records	5%
Bribes	4%
Using competitors' inside info	4%

■ Personal lapses

■ Misconduct that furthers the company's agenda

[4] Several types of misconduct could be either personal or organizational, depending on the particular circumstances. ERC has made preliminary classifications based on past surveys and work in the field of organizational ethics research. Additional analysis of the classifications and their impact is an area of potential future research.

Most Kinds of Personal Types of Misconduct Increase in 2007

Category	2003	2005	2007
Lying internally and externally	21%	19%	25%
Putting own interests ahead of org	n/a	18%	22%
Abusive behavior	22%	20%	21%
Internet abuse	n/a	10%	16%
Discrimination	14%	12%	13%
Stealing	13%	12%	11%
Sexual harassment	14%	10%	10%
Improper hiring practices	n/a	n/a	10%
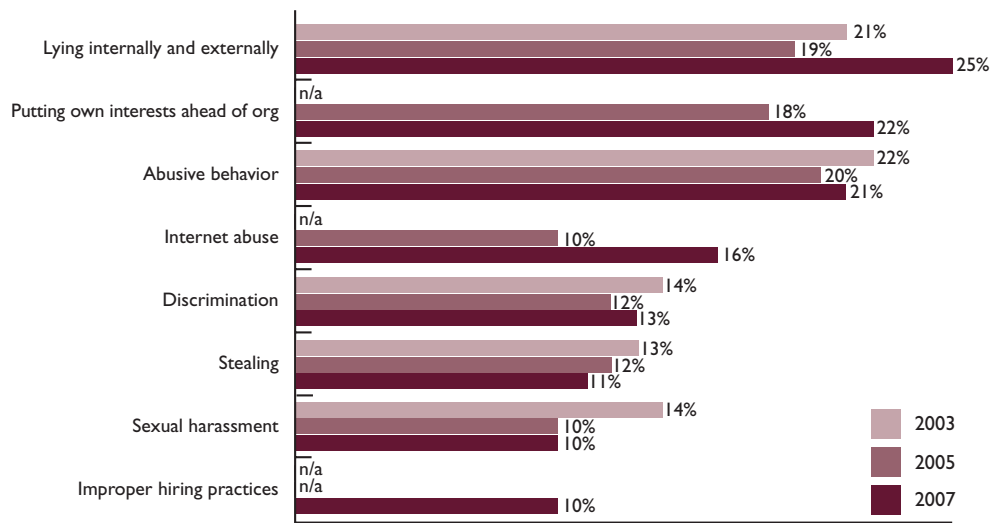
Compared to earlier surveys, virtually no progress has been made in minimizing misconduct. Three forms of misconduct — putting personal interests above company interests, lying, and email/Internet abuse — have gone up significantly.

Some Progress Being Made in Reduction of Organizational Types of Misconduct in 2007

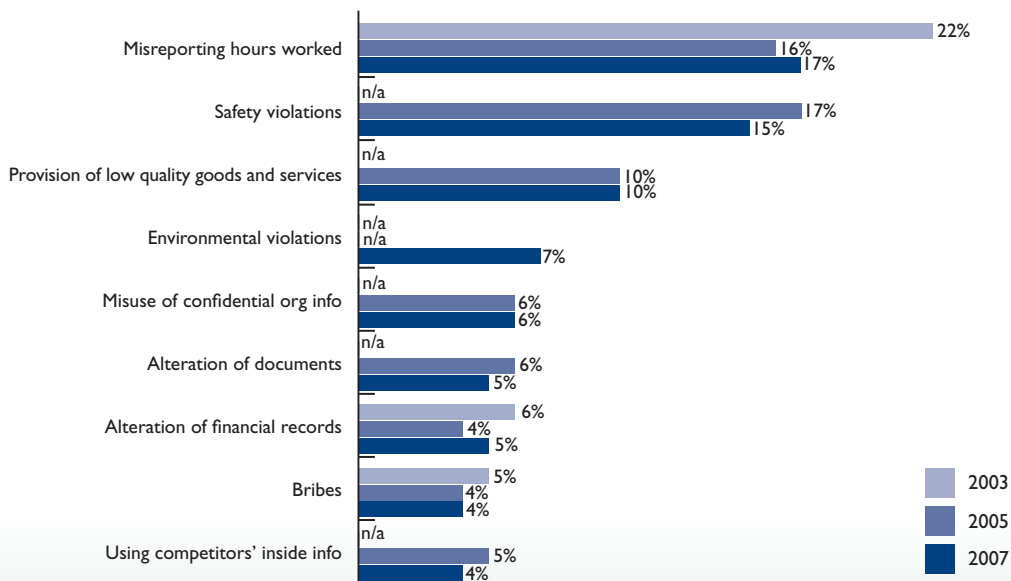| Category	2003	2005	2007
Misreporting hours worked	22%	16%	17%
Safety violations	n/a	17%	15%
Provision of low quality goods and services	n/a	10%	10%
Environmental violations	n/a	n/a	7%
Misuse of confidential org info	n/a	6%	6%
Alteration of documents	n/a	6%	5%
Alteration of financial records	6%	4%	5%
Bribes	5%	4%	4%
Using competitors' inside info	n/a	5%	4%

Employees in U.S.-owned companies observed less misconduct than those who worked for foreign-owned companies operating in the U.S. Almost three quarters (71%) of employees in foreign-owned companies operating in the U.S. observed at least one type of misconduct over the past year compared to just over half (54%) in U.S.-owned companies. This finding merits further research to understand its significance and will be the subject of a more in-depth study in the near future.

Note: Not all kinds of misconduct were asked about in previous surveys. Bars present correspond to kinds of misconduct asked about in 2003, 2005, and 2007.

ADDITIONAL FINDINGS

Fueling the Problem: Pressure to Compromise Ethical Behavior

Ten percent of employees feel pressure to compromise ethics standards, company policy, or the law. Almost all[5] of the six types of pressure asked about in the 2007 NBES are significantly more common in negative work environments. More employees in such environments feel pressure from: supervisors, external stakeholders, performance objectives, concerns about their job security, and the desire to save others' jobs.

**Negative Work Environments Increase
Perceptions of Pressure From Most Sources**

Category	Negative Work Environment	Positive Work Environment
Meeting performance goals	74%	42%
Keeping your job	82%	3%
Supervisory pressure	75%	22%
Saving others' jobs	61%	15%
Advancing own career	44%	31%
Demands from org stakeholders	32%	18%

■ Negative Work Environment
■ Positive Work Environment

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[5] *Only pressure from desire to advance one's own career is not significantly higher in negative work environments.*
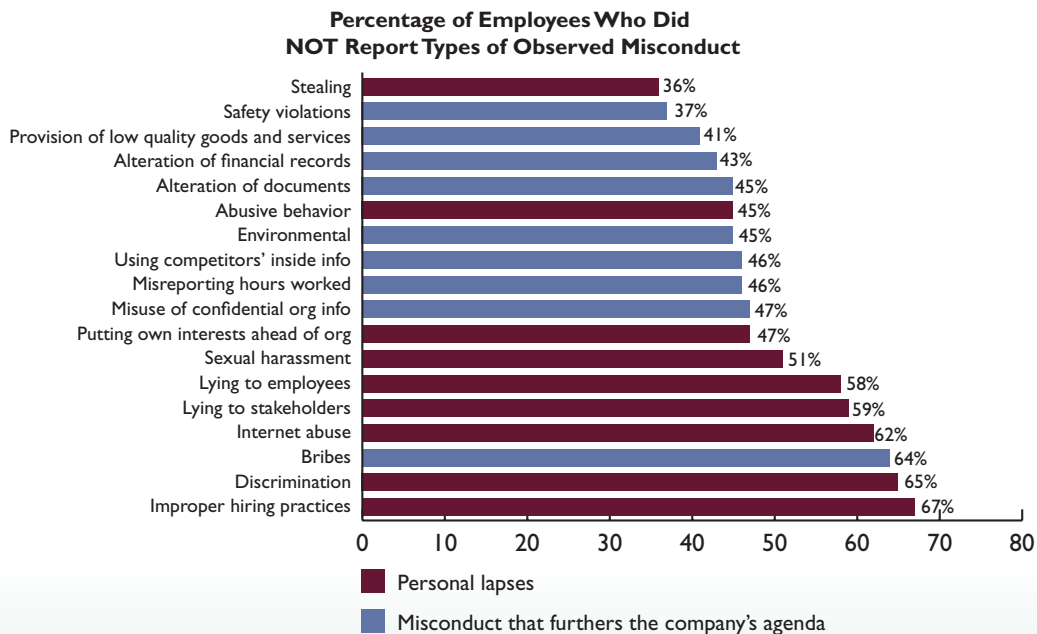
Employee Reporting of Misconduct: Back to Pre-Enron Levels

As noted in the "Key Findings" (p. 3), employee reporting of ethical misconduct has improved only slightly since 2005 and is lower than in 2003. This poses significant risk to companies because, after putting systems in place to deter and sanction misconduct, employee reporting provides critical information that allows management to resolve issues before they become bigger problems.

The 2007 NBES reveals that the five types of misconduct *least likely to be reported if observed* are:
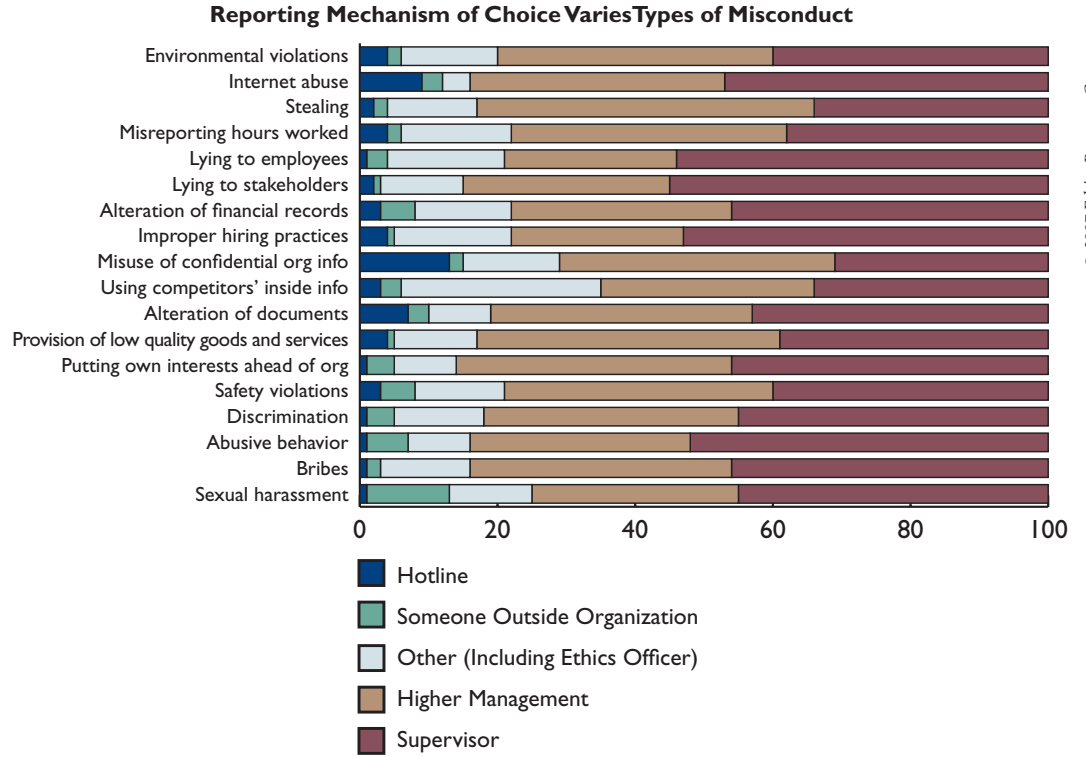
- ⊃ Improper hiring practices;

- ⊃ Discrimination;

- ⊃ Giving or accepting bribes, kickbacks, or inappropriate gifts;

- ⊃ Email/Internet abuse; and

- ⊃ Lying to employees, customers, vendors, or the public.

Generally, employees are more likely to report organizational types of misconduct than personal ones. Of the types of misconduct reported less than half the time, all but bribes are personal in nature.

Percentage of Employees Who Did NOT Report Types of Observed Misconduct

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Type of Misconduct	Percentage
Stealing	36%
Safety violations	37%
Provision of low quality goods and services	41%
Alteration of financial records	43%
Alteration of documents	45%
Abusive behavior	45%
Environmental	45%
Using competitors' inside info	46%
Misreporting hours worked	46%
Misuse of confidential org info	47%
Putting own interests ahead of org	47%
Sexual harassment	51%
Lying to employees	58%
Lying to stakeholders	59%
Internet abuse	62%
Bribes	64%
Discrimination	65%
Improper hiring practices	67%

■ Personal lapses
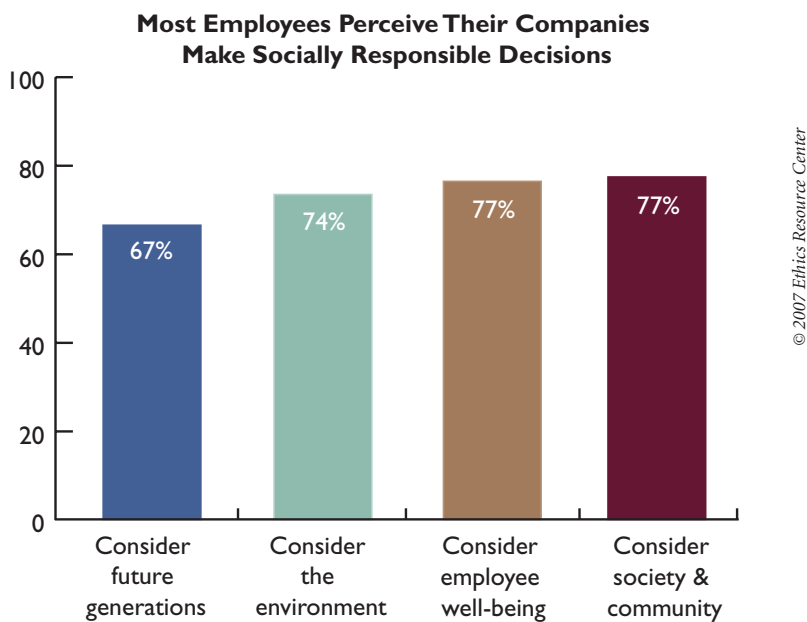■ Misconduct that furthers the company's agenda

ADDITIONAL FINDINGS

The study reveals that, even in companies with an anonymous reporting mechanism, use of hotlines generally lags significantly behind talking with a person, especially someone with whom an employee already has a relationship. The data does suggest that reporting via hotlines is higher when employees observe bribes and misuse of competitors' inside information, but the numbers reporting these two kinds of misconduct are very small, so the trend cannot be projected more broadly.

Reporting Mechanism of Choice Varies Types of Misconduct

Legend:
- Hotline
- Someone Outside Organization
- Other (Including Ethics Officer)
- Higher Management
- Supervisor

Categories (top to bottom):
Environmental violations, Internet abuse, Stealing, Misreporting hours worked, Lying to employees, Lying to stakeholders, Alteration of financial records, Improper hiring practices, Misuse of confidential org info, Using competitors' inside info, Alteration of documents, Provision of low quality goods and services, Putting own interests ahead of org, Safety violations, Discrimination, Abusive behavior, Bribes, Sexual harassment

Social Responsibility: A Priority on Multiple Fronts

Employees care about their company's commitment to its community. Our research highlights embedded values, including decision-making that involves a concern for more than just business outcomes, as one of the four critical components of an enterprise-wide commitment to strong ethical culture. The 2007 NBES indicates that employees generally believe that their companies are making business decisions with corporate responsibility in mind. Employee well-being and overall effect on society and community are considered most frequently, with environmental consciousness not far behind. Employees perceive that impact on future generations is a lower priority in their companies.

Most Employees Perceive Their Companies Make Socially Responsible Decisions

Category	Percentage
Consider future generations	67%
Consider the environment	74%
Consider employee well-being	77%
Consider society & community	77%

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ADDITIONAL FINDINGS

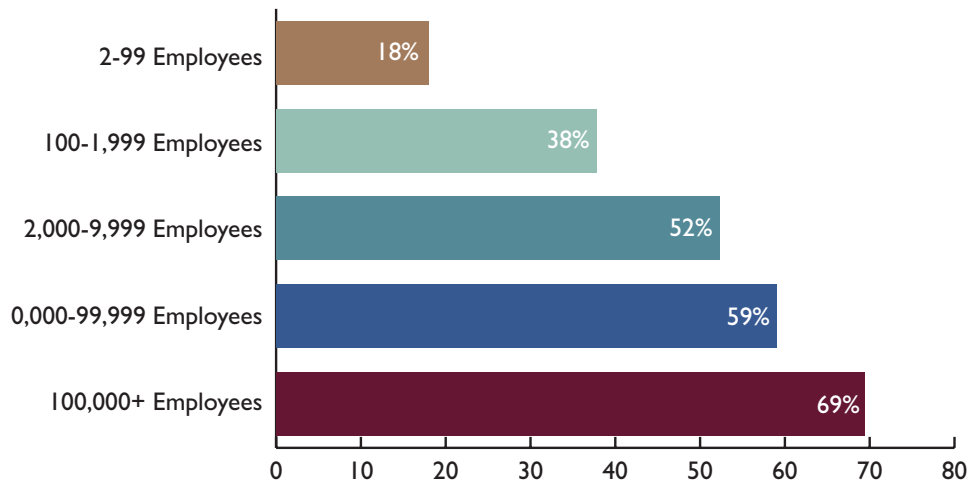## Comprehensive Ethics and Compliance Programs: Most Companies Do Not Have One in Place

Despite a 65 percent rise since 2005 in the number of companies that have implemented a comprehensive ethics and compliance program, still less than 40 percent of companies have put all of the necessary elements in place. Six basic elements are fundamental to a comprehensive ethics and compliance program that is recognizable by employees. These elements were first encouraged by the Federal Sentencing Guidelines for Organizations as outlined in 1991 and 2004 by the U.S. Sentencing Commission. Three are required by the Sarbanes-Oxley Act of 2002. Public registrants are also required to have codes of conduct for listing on many exchanges.

Elements of an Ethics & Compliance Program

FORMAL PROGRAM ELEMENTS	INCLUDED IN COMPREHENSIVE PROGRAM	MANDATED BY SARBANES-OXLEY ACT (2002)
Written standards for ethical conduct	✓	✓
Training on company standards of ethical workplace conduct	✓	
Provision of a mechanism for seeking ethics-related advice or information	✓	
Provision of a mechanism for reporting misconduct anonymously	✓	✓
Disciplining of employees who violate the standards of the organization or the law	✓	✓
Assessment of ethical conduct as a part of employee performance evaluations	✓	

Adoption of a comprehensive ethics and compliance program is related to the nature of company ownership and company size, with publicly-traded and larger companies most likely to have a comprehensive program in place.

Percentage of Employees Recognizing Own Companies as Having Comprehensive Program Increases with Company Size

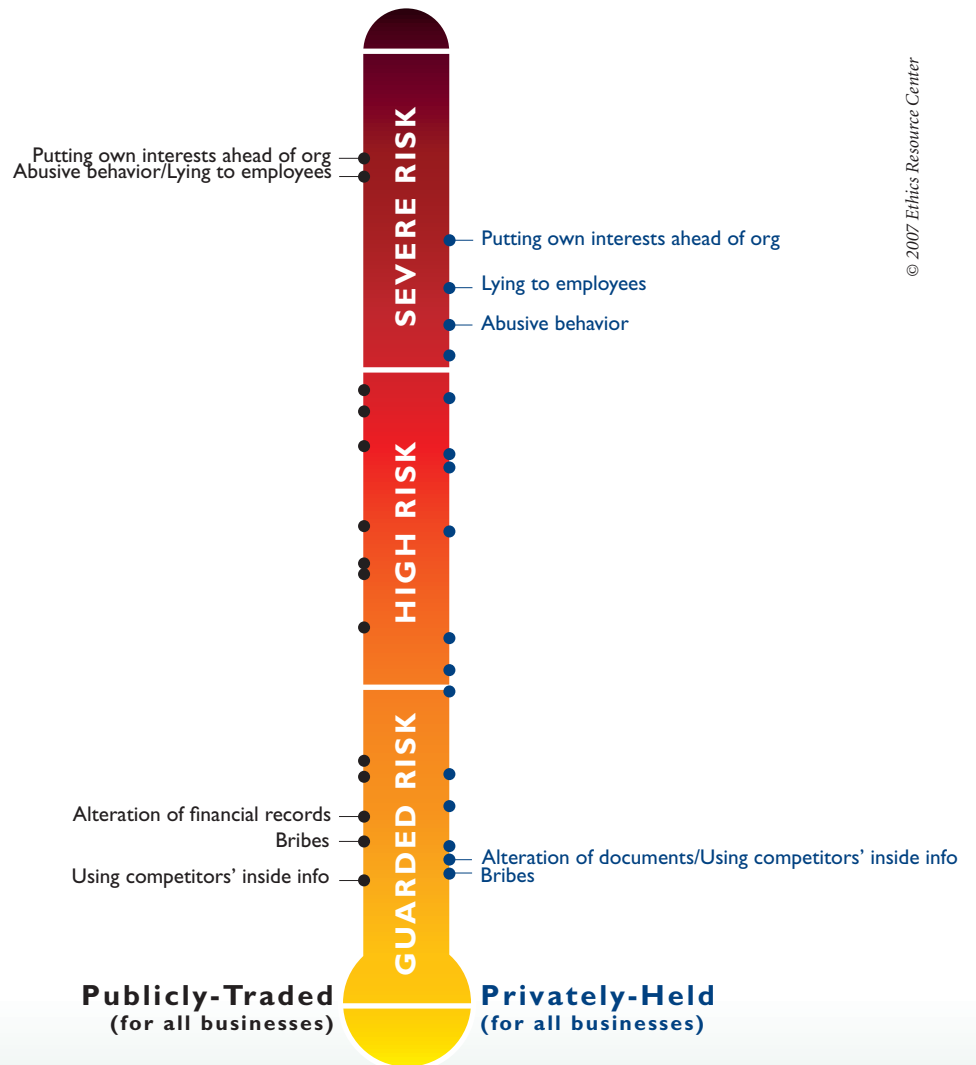| Company Size	Percentage
2-99 Employees	18%
100-1,999 Employees	38%
2,000-9,999 Employees	52%
0,000-99,999 Employees	59%
100,000+ Employees	69%

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The 2007 NBES reveals that ethics training and the integration of a mechanism to report violations of workplace ethics anonymously are the two elements of an ethics and compliance program that continue to see increasing adoption. Other elements have remained relatively stagnant over the most recent years.

ADDITIONAL FINDINGS

Publicly-traded and the Largest Companies are At Greater Risk Than Privately-held and the Smallest Companies.

The 2007 NBES reveals that publicly-traded companies' ethics risk is higher for 14 of the 18 specific types of misconduct, despite the fact that they are more likely to have a comprehensive ethics compliance program in place.
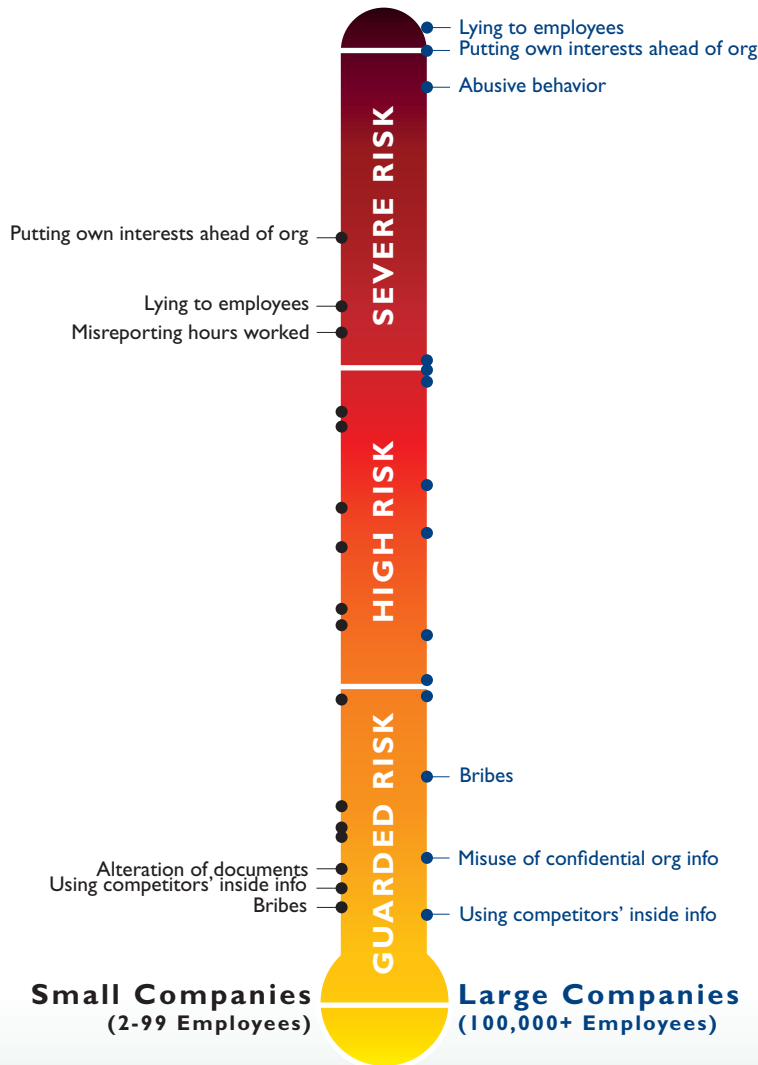
Public Companies at Greater Ethics Risk Than Privately-Held Companies

SEVERE RISK

Putting own interests ahead of org
Abusive behavior/Lying to employees

Putting own interests ahead of org

Lying to employees

Abusive behavior

HIGH RISK

GUARDED RISK

Alteration of financial records
Bribes

Alteration of documents/Using competitors' inside info
Bribes

Using competitors' inside info

Publicly-Traded
(for all businesses)

Privately-Held
(for all businesses)

The research also indicates that ethics risk is related to company size. For example, in general, the risks associated with abusive behavior and lying to employees appear to rise with the number of employees.

Largest Companies Face Greater Ethics Risk, Smallest Companies Have Lowest Ethics Risk


- Lying to employees
- Putting own interests ahead of org
- Abusive behavior

SEVERE RISK

- Putting own interests ahead of org
- Lying to employees
- Misreporting hours worked

HIGH RISK

GUARDED RISK

- Bribes
- Misuse of confidential org info
- Alteration of documents
- Using competitors' inside info
- Bribes
- Using competitors' inside info

Small Companies
(2-99 Employees)

Large Companies
(100,000+ Employees)

ADDITIONAL FINDINGS

Analysis of Enterprise-Wide Cultural Approach to Business Ethics Reveals Peer Relationships as Emerging Area of Concern.

The 2007 NBES demonstrates that a strong enterprise-wide cultural approach very significantly decreases misconduct, increases the likelihood of reporting[6], and reduces retaliation against employees who report.

Companies who want to improve their enterprise-wide ethical culture should focus on the four elements mentioned previously: ethical leadership, supervisor reinforcement, peer commitment to ethics, and embedded ethical values. Among these elements, peer commitment to ethics has the strongest connection to the amount of misconduct that is observed by employees. Unfortunately, since 2003, an increasing percentage of employees believe that their peers do not demonstrate a commitment to ethics.
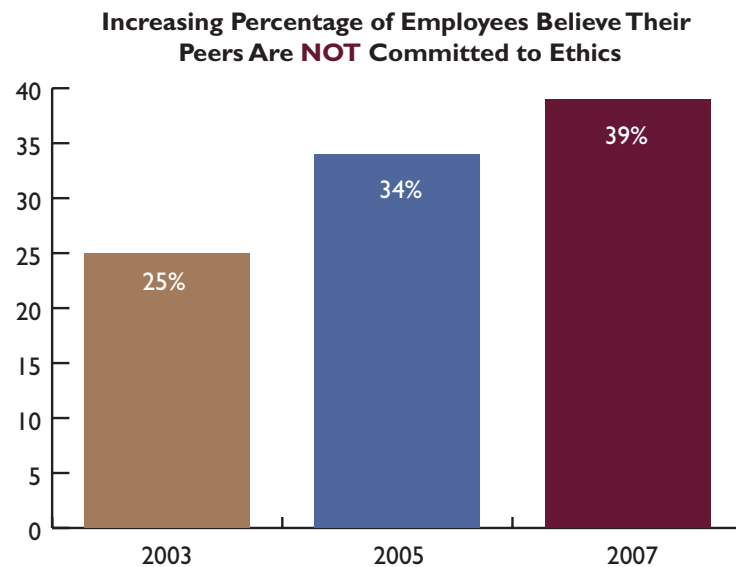
Increasing Percentage of Employees Believe Their Peers Are NOT Committed to Ethics

CONCLUSION
Implications of the 2007 National Business Ethics Survey

Despite remedies available, businesses in the U.S. face an ethics risk at pre-Enron levels. Many legal and regulatory efforts in the past few years have encouraged company improvement in ways that are compliance-oriented, but compliance alone does not substantially reduce risk.

At a time when the smallest of activities can attract substantial public attention, businesses are at risk when ethical misconduct is likely to occur but management is unlikely to know about it. The findings of this research present a troubling picture about misconduct and its reporting across the country, but they also show a path to improvement — if America's leaders in the private sector and government are willing to take immediate, thoughtful action.

Two primary challenges emerge for corporate leaders and public policy-makers.

■ **Reducing Misconduct: Building Reputation as Capital**
A strong ethical culture yields high returns for U.S. companies — when present, misconduct drops by almost as much as 75 percent. Yet fewer than *one in ten* companies today has a strong ethical culture in place. If U.S. businesses viewed ethics as building reputational capital — protecting corporate brand and preventing misconduct — ethics risk in the U.S. would be substantially reduced.

■ **Increasing Reporting: The 42 Percent Challenge**
Every employee should be empowered and enabled to ask questions about appropriate business conduct, raise concerns, and report misconduct. The immediate challenge for America's companies is to address the gap that exists between misconduct and the willingness of employees to alert management through meaningful channels. On average, 42 percent of employees do not report misconduct to company leadership. Two in five employees don't notify management in the face of misconduct, which demonstrates that many businesses today are environments where employees struggle to find the ethical courage to do what is right.

CONCLUSION

Recommendations for Company Management and Boards of Directors

Ethics risk is significantly minimized when a concerted enterprise-wide commitment to the highest ethical standards *and culture* is in place. You can make progress by taking several steps:

■ **Ensure that measures to create an ethical culture are in place. Compliance alone is not enough.** Ethical culture is the single biggest factor determining the amount of misconduct in your organization. Establishment of a strong ethical culture is a continual process, one that can be approached strategically, with measures to demonstrate progress. To start, determine the facets of your enterprise-wide ethical culture that are in need of improvement. Establish measures of success, and encourage all levels of management to engage in actions that convey the importance of ethical conduct.

■ **Push ethical leadership down to the mid-management and supervisory level.** The proverbial "tone at the top" should be considered "tone at the tops." Ninety percent of employees seek out an individual they know within the company for advice or to report misconduct — companies cannot rely wholly on executive-level communications to establish an ethical culture.

■ **Recognize that your hotline statistics are telling only part of the story.** The research demonstrates that whistleblower hotlines and formal internal control mechanisms are important, but they provide an incomplete picture of the amount of misconduct that is occuring. Leaders would be wise to assess their employee populations to find out where they go when they need ethics advice and how they really report misconduct.

■ **Inform employees about the outcome of reports.** Most employees do not report misconduct to management because they do not believe action will be taken, and they fear retaliation if they make the effort. When management takes the time to inform employees about the outcome of reports that are made, both concerns are addressed. Therefore, two actions should be taken. First, employees who report observed misconduct should be provided mechanisms to confidentially check the status of follow-up investigations that are taking place. Second, companies should develop a means to communicate to all employees the sanitized statistical information about reports related to issues in the company's code of conduct, investigations initiated, and disciplinary actions for substantiated reports.

■ **Create tangible incentives for ethical courage.** Making ethical decisions in the face of pressure to do otherwise requires personal risk by an employee. Reporting misconduct to management also takes ethical courage. Employees are more likely to take these risks if their experience tells them that management supports, rewards, and protects individuals who take steps to uphold ethical standards. Performance measures for upholding ethical standards should be integrated into employee evaluations, and companies should take steps to recognize employees who demonstrate right conduct.

■ **Elevate ethics and compliance professionals to real standing within the company.** Establishment of an effective program and a strong ethical culture that is pervasive throughout an organization requires intentional and high-level oversight. Companies send an important message to employees about the priority of ethics and compliance by the way the function appears on an organizational chart. Ethics and compliance professionals should have sufficient and recognized authority to drive the effort.

Recommendations for Policy-makers:

Policy-makers and other market participants can encourage companies to operate with the highest integrity by doing the following:

■ **Take immediate action to further understand and address the current ethical stagnation in U.S. business.** The current level of misconduct and ethical stagnation impacts U.S. competitiveness and deflates investor confidence. Yet the causes of these failures and the current lack of progress in increasing business integrity remain elusive. The Administration and/or Congress should establish an advisory group to understand the roots of the problem and offer recommendations that will build momentum for positive change. A subcommittee within the group should be established to focus specifically on the role of company culture in defining ethical behavior and improving compliance.

■ **Emphasize ethical culture in policy-making, law-making, and regulation.** The research demonstrates that ethical workplaces exist only when the culture supports them. New laws, regulations, and requirements that focus on ethical issues should encourage the building of an ethical culture that extends beyond a single-minded focus on compliance.

■ **Measure ethical culture in government oversight.** This research and other studies prove that ethical culture and compliance can be measured. The ERC Ethics Risk Index is one example of an indicator that can help identify and address areas of ethical vulnerability. Policy-makers should employ algorithms such as the Index to assess the success of their policies. Policy-makers should encourage company employment of similar metrics.

NEXT STEPS
for the Ethics Resource Center

The findings in this report represent only a portion of the National Workplace Ethics Study. In the coming months, ERC plans to undertake several additional research efforts to expand upon and complement the findings presented here:

- ➲ National Government Ethics Survey;

- ➲ National Nonprofit Ethics Survey;

- ➲ ERC Ethics Risk Index, including evaluation of the impact of specific kinds of misconduct on the company;

- ➲ Further refinement of the investigation of personal and organizational forms of misconduct;

- ➲ Additional research on reporting behaviors, including further investigation of the use of hotlines and the impact of ethics and compliance programs; and

- ➲ Analysis of differences between U.S.-owned domestic companies, U.S. multi-nationals, and foreign companies operating in the U.S.

All work in this effort is funded by charitable contributions. Additional donations from individuals, companies, and other organizations will enable ERC to expand its research and conduct further analysis on the data. For more information about how to support the National Workplace Ethics Study or other ERC research projects, please visit *www.ethics.org.*

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ADVISORY GROUP
for Ethics Resource Center's 2007 National Business Ethics Survey

The 2007 NBES Advisory Group includes leading ethics and compliance practitioners, specialists in research methods, academics in organizational ethics and sociology, and consultants who apply our findings in the field. The NBES 2007 research team[7] thanks the following individuals for their insight and collaborative support, which have been invaluable.

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[7] *A list of the members of the NBES 2007 research team can be found on p. 32.*

Denotes service as a member of the Advisory Group for the 2000, 2003, 2005, and 2007 NBES.

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for Ethics Resource Center's 2007 National Business Ethics Survey

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Data for the 2007 NBES was collected by Opinion Research Corporation (ORC):

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Additional findings, methodology, and demographic information
can be found at *www.ethics.org*.

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