



**Supplemental RESEARCH BRIEF**  
**2009 NATIONAL BUSINESS ETHICS SURVEY®**

*The Importance of Ethical Culture:  
Increasing Trust and Driving Down Risks*



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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 88 years, ERC has been a resource for public and private institutions committed to a strong ethical culture. ERC's expertise also informs the public dialogue on ethics and ethical behavior. ERC researchers analyze current and emerging issues and produce new ideas and benchmarks that matter — for the public trust.

For information about the National Business Ethics Survey, see page 15.

# The Importance of Ethical Culture: *Increasing Trust and Driving Down Risks*

We like to believe that, as adults, we make decisions independently and are far beyond succumbing to peer pressure. But social science research tells us that is simply not the case. Study after study confirms it: the vast majority of people act based on the circumstances in their environment and the standards set by their leaders and peers, even if it means compromising their personal moral ideals. “Good” people do bad things if they are put in an environment that doesn’t value values, if pressured to believe that they don’t have any choice but to get the job done—whatever it takes.

In the workplace, leaders exert power and influence behavior by controlling who is hired, retained, fired, or promoted. Coworkers teach lessons by whom they choose to listen to; whom they admire; whether they ask questions of their supervisors and whether they publicly acknowledge the rules, but privately do whatever gets the outcome they want. And, as a result, employees learn what *really* matters, how things *really* get down around here<sup>1</sup>. This is the essence of ethical culture.

While the term “ethical culture” may sound mysterious or esoteric, it’s a reality that all working people experience whether they realize it or not. In a “strong” ethical culture, ethical values matter and that is apparent in the actions of employees (especially management), company policy and proce-

dures, and decisions about who gets rewarded, who gets punished, and how to weather tough times. In a “weak” ethical culture, ethical values aren’t promoted and “getting the job done” is far more important than getting the job done in the ethically *right* way. Basically, the strength of a company’s ethical culture is the extent to which the organization makes doing the right thing a priority.

Recognizing the importance of ethical culture, the Ethics Resource Center (ERC) has developed indices to measure employees’ perceptions about the overall organization and their peers, direct supervisors and senior leadership. ERC uses these indices to investigate ethical culture and its impact. The measures and indices that serve as the basis of this report were gathered in ERC’s National Business Ethics Survey.<sup>2</sup>

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1. Treviño, Weaver, Gibson and Toffler. (1999) Managing Ethics and Compliance: What Works and What Hurts. *California Management Review*, 41 (2).

2. Six times since 1994, the Ethics Resource Center has carried out a nationally representative poll of employees at all levels that explores beliefs and experiences related to ethics and compliance at work: the National Business Ethics Survey (NBES®). It is the most exacting longitudinal research effort examining business ethics from the employee perspective and serves as a 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.

## What We Already Knew: ERC's Past Research on Ethical Culture

Over the years, ERC has learned several basic facts about ethical culture:

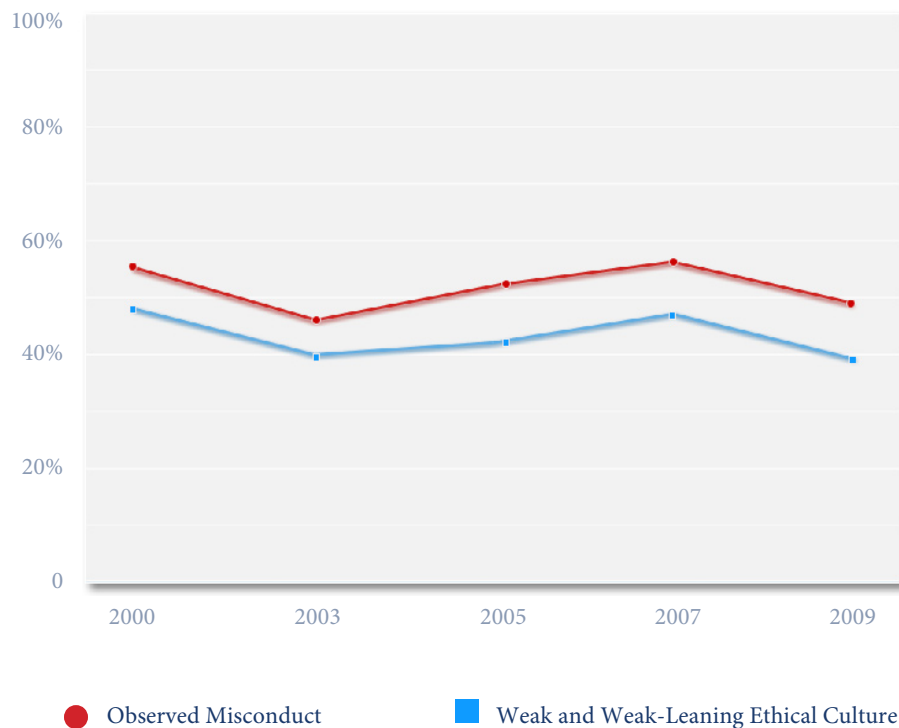
1. The strength of a company's ethical culture drives:

- Whether or not employees feel pressure to compromise company standards;
- The rate of observed misconduct;

- Whether employees who observed misconduct chose to report it; and
- Whether those who report feel retaliated against.

In stronger cultures, results are more positive. Conversely, results are more troubling in weaker cultures. And this is true not only at the individual company level. For example, we see that in the United States as a whole, weaker perceptions of ethical culture coincide with increases in observed misconduct. When the American workforce has a more positive perception of the ethical cultures of their workplaces, observations of misconduct decline.

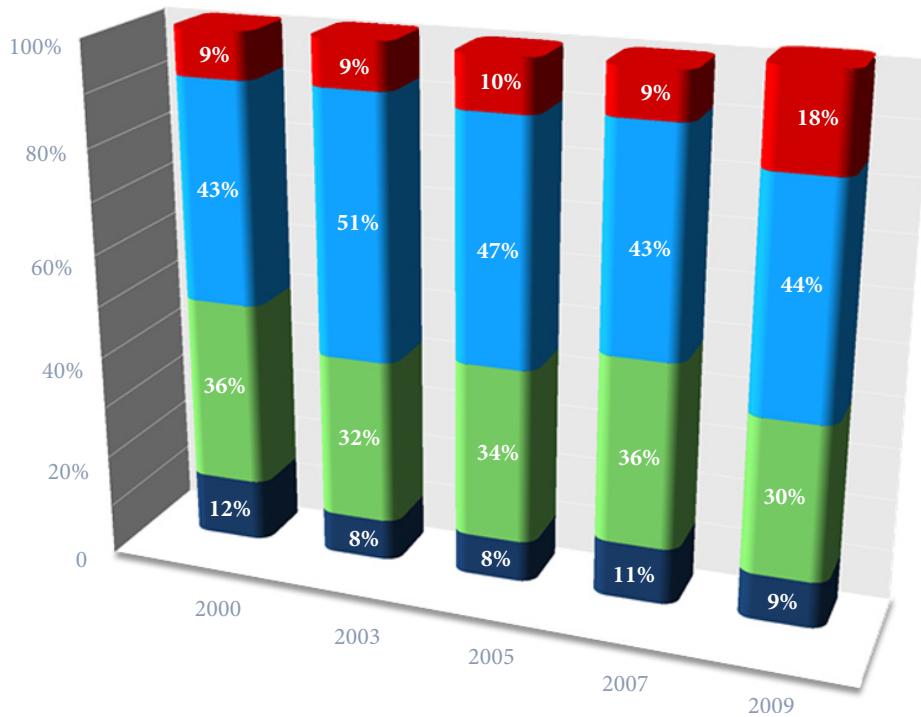
### Weaker Perceptions of Ethical Culture Coincide with Increases in Observed Misconduct



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2. Overall, ethical cultures are stronger during times of heightened scrutiny, including the years post-Enron and the recent financial crisis.

### More Favorable Perceptions of Ethical Culture Coincide with Greater Scrutiny During Times of Crisis



- Weak Culture
- Weak-Leaning Culture
- Strong-Leaning Culture
- Strong Culture

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3. Ethical culture is experienced differently by different kinds of employees:

Perceive Stronger Ethical Culture within Company	Perceive Weaker Ethical Culture within Company
Managers, especially senior leaders	Nonmanagement employees
Non-unionized workers	Workers in a union
Older workers	Younger workers <sup>3</sup>
Most-tenured employees	Most recent hires

### Investigations and Findings

ERC’s research on ethical culture, including its National Business Ethics Survey, is ongoing. Recently, ERC looked at its NBES 2009 data to see if the basic relationships between ethical culture and outcomes still held, and to further explore those relationships.

Using data from the 2009 NBES, we investigated several key questions:

- What is the relationship between ethical culture strength and desired results of an ethics and compliance program (i.e., fewer employees feeling pressure to compromise

company standards, reduction in rates of observed misconduct, increased reporting of observations, and reduction in retaliation against reporters)?

- How important are company leaders when it comes to shaping ethical culture?
- How is ethical culture related to extremely serious financial misconduct, such as misrepresenting finances and insider trading?
- How have perceptions of culture and different aspects of culture changed over time?
- Which companies, by their nature, are less likely to have strong ethical cultures?

3. For more information on differences between age groups and generational differences in the workplace, please see the Ethics Resource Center’s supplemental research brief *Millennials, Gen X and Baby Boomers: Who’s Working at Your Company and What Do They Think About Ethics?* Available at: [www.ethics.org/topic/national-surveys](http://www.ethics.org/topic/national-surveys)



## FINDING 1:

*Ethical culture continues to have a profound impact on pressure, observed misconduct, reporting of observed misconduct, and rates of retaliation against reporters.*

Misconduct—especially misconduct that management is unaware of, and therefore can't address—puts the company at risk. It can lead to a damaged reputation; deteriorating relationships with customers and clients; loss of valued employees; prosecution; fines and even debarment. As a result, reducing misconduct and increasing reporting of misconduct when observed are primary goals of ethics and compliance programs. Savvy ethics and compliance practitioners also are mindful of rates of pressure to compromise standards (a leading indicator of observed misconduct<sup>4</sup>) and retaliation against reporters, which drives reporting rates.<sup>5</sup>

As with past ERC studies, e.g., NBES 2007, the 2009 NBES data reveal that strong ethical cultures lead to better outcomes:

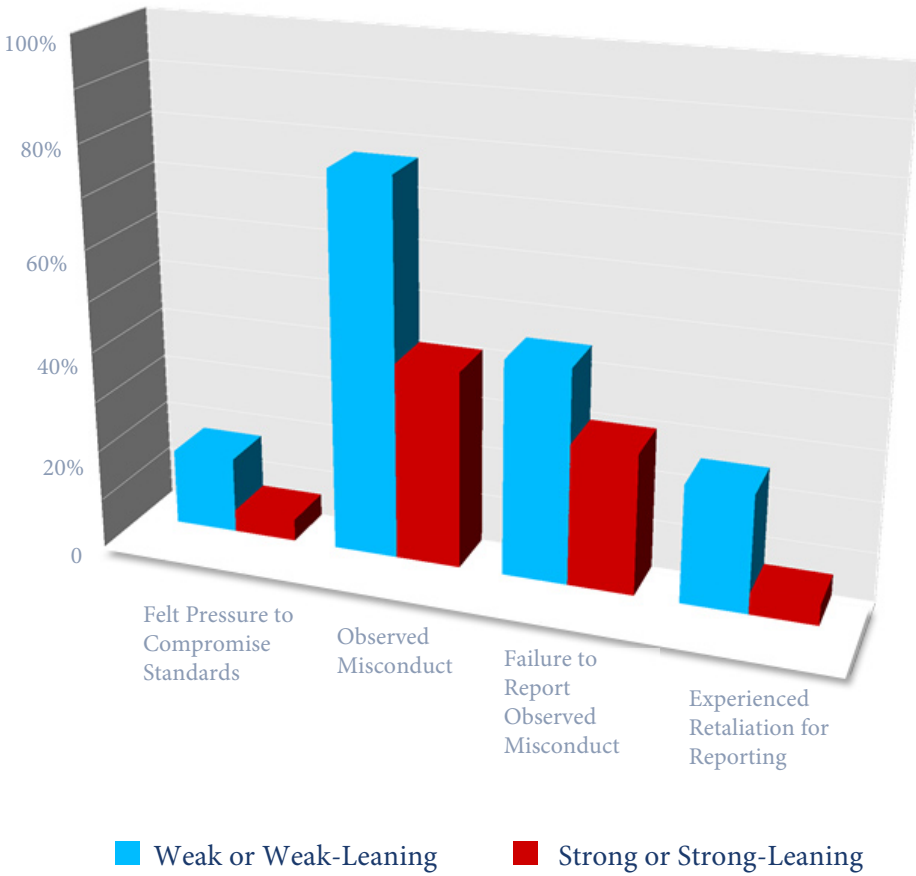
- In stronger cultures, far fewer employees (4 percent) feel pressure to commit misconduct than in weaker cultures (15 percent).
- Rates of observed misconduct in stronger cultures are roughly half (39 percent) as high as in weaker cultures (76 percent).
- In stronger as opposed to weaker ethical cultures, failure to report observed misconduct declines by more than a third, from 43 percent to 28 percent.
- The retaliation rate in stronger ethical cultures is 4 percent, compared to 24 percent in weaker cultures.

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4. Throughout the history of NBES research, we have consistently found that employees who have felt pressure to commit misconduct are far more likely to actually observe misconduct than those who do not. For example, in 2009, 88 percent of those who felt pressure to compromise standards also observed misconduct, but only 12 percent of those who did not feel pressure observed wrongdoing.

5. Structural equation modeling based on the 2007 NBES dataset revealed that increases or decreases in retaliation cause corresponding increases or decreases in rates of reporting.

## Strong Ethical Culture Reduces Pressure, Observed Misconduct, Failure to Report & Retaliation



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The positive impact of ethical culture is true not only for observed misconduct in general, but also

for every one of the 27 specific forms of misconduct that ERC asked about in 2009.

	Strong or strong-leaning	Weak or weak-leaning	Difference
OBSERVED AT LEAST ONE FORM OF MISCONDUCT IN PREVIOUS 12 MONTHS	18%	45%	149%
Misrepresenting Financial Records	1%	10%	849% <sup>6</sup>
Environmental Violations	1%	10%	745%
Insider Trading	0%	2%	590%
Illegal Political Contributions	0%	2%	578%
Anti-Competitive Practices	1%	4%	550%
Lying to Employees	6%	40%	513%
Discrimination	5%	30%	500%
Improper Hiring Practices	4%	20%	460%
Making Bribes to Public Officials	0%	2%	457%
Employee Benefits Violations	4%	23%	436%
Accepting Bribes or Kickbacks	1%	7%	415%
Lying to Customers, Vendors, or the Public	5%	23%	412%
Inappropriate Alteration of Documents	2%	12%	397%
Employee Privacy Breach	4%	20%	394%
Health & Safety Violations	5%	20%	287%
Improper Use of Competitor's Inside Info.	1%	4%	282%
Falsifying Time/Expense Reports	5%	19%	271%
Sexual Harassment	4%	13%	254%
Abusive Behavior	11%	40%	250%
Misuse of Company's Confidential Info.	3%	10%	225%
Poor Product Quality	5%	15%	218%
Stealing	5%	15%	215%
Customer Privacy Breach	3%	10%	182%
Company Resource Abuse	14%	38%	177%
Conflicts of Interest	10%	26%	164%
Substance Abuse	4%	11%	144%
Internet Abuse	14%	23%	65%

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6. Percentage-point differences are based on actual, not rounded, percentages. As a result, they may be one point higher or lower than percentage-point differences between the rounded/whole-number percentages displayed in tables.

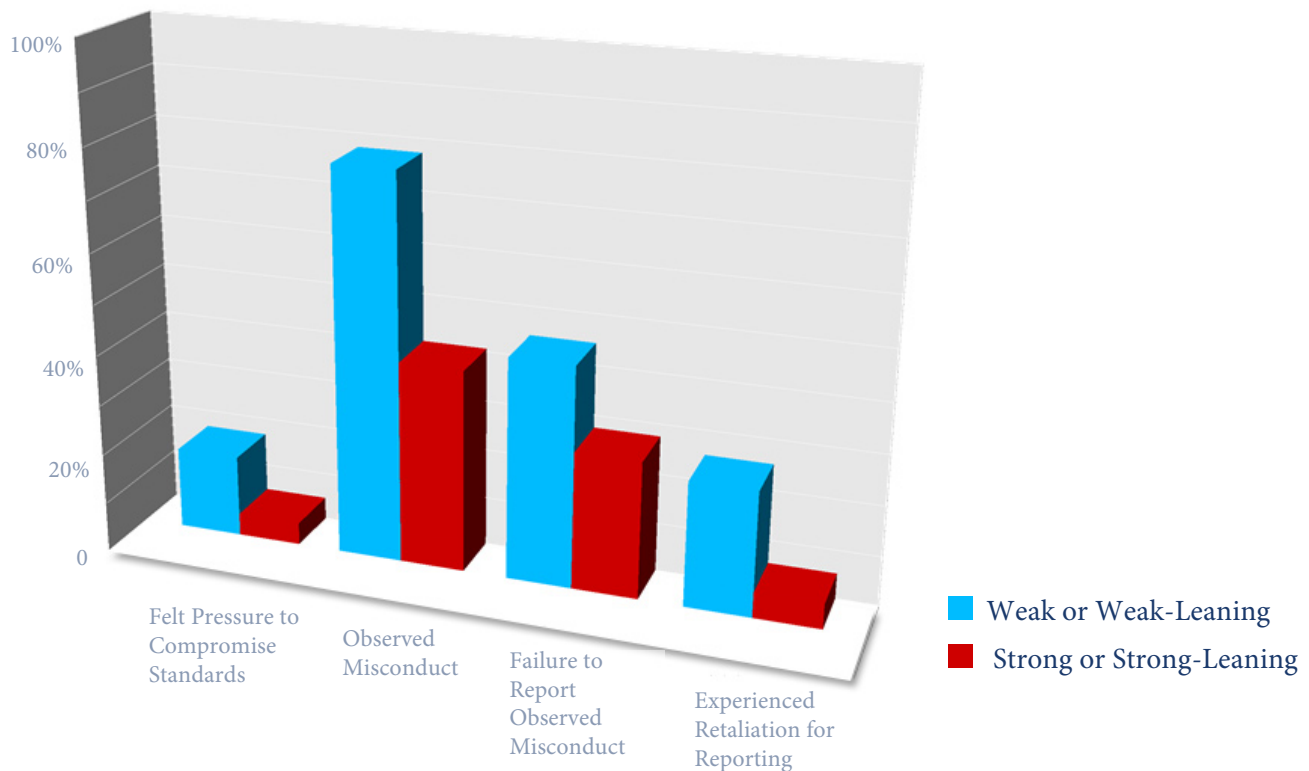
## FINDING 2:

*Actions—and perceptions—of top managers drive the ethical culture of the company and have a significant impact on outcomes.*

It's no secret that leaders have a significant impact on the success of a company. But some leaders still fail to see that ethical leadership is a vital component of effective and responsible management. Such a

mindset puts the company at risk and misses out on a significant opportunity. 2009 NBES data provide evidence that, even more than coworkers or direct supervisors<sup>7</sup>, top management makes a difference when it comes to critical outcomes. In stronger as opposed to weaker cultures, pressure is reduced from 16 to 4 percent (a 300 percent decline); rates of misconduct are roughly halved from 77 to 40 percent; failure to report declines from 44 to 27 percent and retaliation against reporters diminishes from a rate of 1 in 4 to 1 in 20.

### Strong Top Management Culture Reduces Pressure, Observed Misconduct & Retaliation



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7. If top management culture was stronger, pressure to commit misconduct fell by 75 percent compared to 69 for supervisor culture and 54 percent for coworker culture. In terms of misconduct, moving from weaker to stronger cultures, we see a 48 percent drop associated with top management and supervisor culture, but only 42 percent related to coworker culture. In stronger top management cultures, reporting is 28 percent higher than in weaker, compared to a difference of 21 percent related to supervisor culture and 22 percent for coworker culture. Finally, retaliation drops by 80 percent from stronger to weaker top management cultures—higher than the 78 percent drop connected with supervisor cultures and 59 percent with coworker culture.

### FINDING 3:

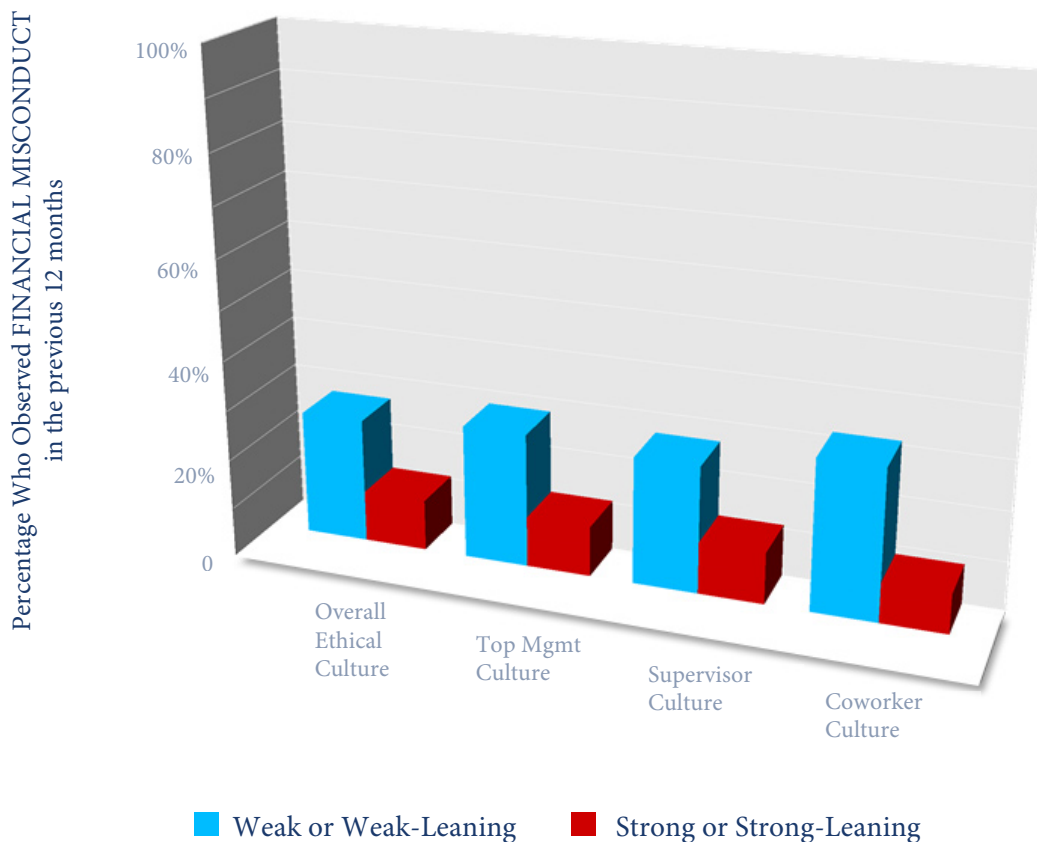
*Coworker culture is particularly powerful for decreasing observations of financial misconduct, but top management culture is associated with the greatest increases in reporting it.*

Although all misconduct is cause for concern, certain kinds are particularly worrisome. Many of the most troubling forms of misconduct involve inappropriate financial dealings: misrepresenting the financial health of the company, misappropriating assets, violating contracts and the like. While these kinds of misconduct are far less common than more

HR-related issues like abusive behavior, even a single incident can be very damaging for a company.

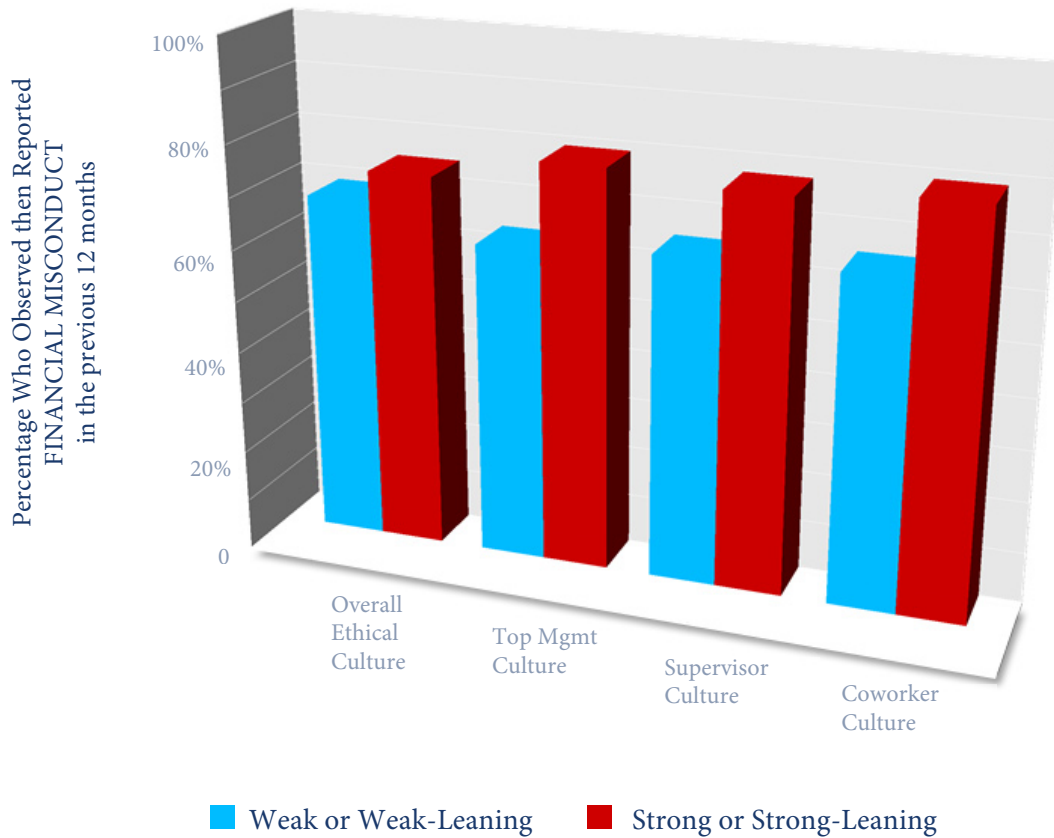
Analysis of 2009 NBES data reveals that overall culture, as well as the three subcultures, have a demonstrably positive impact on reducing financial misconduct. By comparing overall culture and the three levels, we see that a strong coworker culture is related to the greatest reduction in observations of financial misconduct. In stronger coworker cultures, 8 percent of employees observed one or more kinds of financial misconduct, compared to 31 percent in weaker cultures; that equates to cutting observations of financial misconduct by roughly three-fourths.

### Strong Coworker Culture Connected with Most Significant Decrease in Observations of Financial Misconduct



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## Strong Top Management Connected with Greatest Increase in Reporting of Observations of Financial Misconduct



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In addition to reducing rates of financial misconduct, leaders are intent on increasing reporting of observations. Reporting reduces ethics risk by ensuring that management is aware of and able to address problems instead of being vulnerable to lurking issues. The relationship is noticeably more modest, but, as with observations of financial misconduct, overall

culture and all three levels of culture are associated with improved results. In this case, top management seems to exert the greatest influence. Seventy-eight percent of employees in stronger top management cultures who observe financial misconduct report it, compared to 61 percent in weaker cultures. This equates to a 28 percent increase in reporting rates.

#### FINDING 4:

*Although overall culture and coworker culture are on the rise, perceptions of management (top and supervisors) are declining.*

In 2009, more employees (62 percent) characterized

their overall ethical culture as being strong or strong-leaning than in any past NBES. Similarly, a higher number (68 percent) felt positively about the ethics of their coworkers than in any year except 2003. Perceptions of the ethics of top management, however, are lower than in any year prior. And perceptions of supervisor culture have been declining from a zenith in 2005 and are the weakest since ERC began surveying.

	2003	2005	2007	2009
Strong or Strong-Leaning OVERALL ETHICS CULTURE	60%	58%	53%	62%
Strong or Strong-Leaning TOP MANAGEMENT CULTURE	71%	67%	68%	66%
Strong or Strong-Leaning SUPERVISOR CULTURE	75%	78%	71%	70%
Strong or Strong-Leaning COWORKER CULTURE	76%	66%	61%	68%



## FINDING 5:

*When it comes to strength of ethical culture, some companies are at an innate disadvantage.*

Just as ethical culture is experienced differently by

varying employee groups,<sup>8</sup> certain kinds of companies are—by their very nature—more likely to have weak or weak-leaning ethical cultures. Highly unionized companies tend to have weaker ethical cultures. Companies with 500 or more employees and that are publicly-traded are also at a disadvantage.

More Likely to Have Strong or Strong-Leaning Ethical Cultures	More Likely to Have Weak or Weak-Leaning Ethical Cultures
Non-unionized workers	Highly-unionized
Fewer than 500 employees	500+ employees
Privately-held	Publicly-traded
Have employee-owners	Employees do not hold stock

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8. For example, 82 percent of top managers consider their culture to be strong or strong-leaning compared to 56 percent of first-line supervisors.

## Conclusions & Implications

In stronger ethical cultures, employees feel engaged and committed to the company<sup>9</sup> and the company is protected from the risks associated with misconduct and lurking ethics issues. Efforts to promote ethics and develop a strong ethical culture are not only the right thing to do—they make business sense because in stronger ethical cultures:

- Fewer employees feel pressure to compromise company standards;
- More employees observe misconduct and there are fewer incidences of every kind of misconduct;
- Employees who observe misconduct are more likely to report it; and
- Reporters are less likely to experience retaliation.

As a result of investigation conducted for this report, ERC also has learned that:

- Of the three subcultures, top management culture is most closely associated with improved outcomes;
- Coworker culture is most closely linked with rates of financial misconduct, but top management is associated with reporting such observations;

- While overall and coworker cultures are improving, perceptions of management—both senior leaders and direct supervisors—are declining; and
- Certain kinds of companies (e.g., those that are publicly traded and/or highly unionized and those with more than 500 employees) are at an innate disadvantage in terms of the strength of their ethical cultures.

Based on these findings, ERC has several recommendations for senior leaders wishing to improve their companies' ethical cultures:

- *Make developing a strong ethical culture a business priority.* Recognize that ethical culture has a profound impact on pressure, misconduct, reporting, and retaliation and, therefore, has huge potential to reduce ethics risk and decrease the company's reputational risk.
- *Lead by example; talk the talk and walk the walk.* Senior leaders have the greatest impact on their companies' cultures and should take advantage of the opportunity it presents. By keeping employees informed, living up to promises and commitments, modeling a commitment to ethics and setting a good example, they can have a profound impact on their companies' ethical cultures and ethical health.<sup>10</sup>

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9. For more information on the relationship between company ethics and employee engagement, please see the Ethics Resource Center's supplemental research brief to the 2009 National Business Ethics Survey *Ethics and Employee Engagement*. Available soon at: [www.ethics.org](http://www.ethics.org)

10. For more information, see: Ethics Resource Center. (2006). *Critical elements of an organizational ethical culture*. Washington, DC: A. Levanon Seligson & L. Choi.

- *Develop and promote programs that encourage ethics as a priority among workers at all levels.* By ensuring that peers support one another and support each others' efforts to live up to ethical standards in the workplace, leaders help drive down rates of financial misconduct.
- *Be mindful of what challenges are innate to your organization and find ways to help employees feel invested in the company.* Leaders can't easily change the basic profile of their companies (number of employees, public vs. private ownership, etc.) but they

can become "best in class" by learning from others' successes.

- *Invest time and effort in regular assessment and careful analysis.* Employee surveys will uncover "problem areas" in need of intervention and highlight strengths to learn from and replicate. Furthermore, regular assessment makes it possible to track progress over time, encouraging accountability for the success of efforts to promote a strong ethical culture.

## ABOUT NBES

The 2009 National Business Ethics Survey (NBES) is the sixth in a series of reports that began in 1994. NBES has grown into a mainstay of research on ethics in the American workplace.

NBES 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 context for national trends. NBES is the only longitudinal study that tracks the views of employees at all levels within organizations to reveal real-life views of what is happening within organizations and the ethics risks they face.

Download the initial 2009 NBES report at [www.ethics.org/nbes](http://www.ethics.org/nbes).

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