

National Business Ethics Survey®

*How Employees View
Ethics in Their Organizations
1994-2005*



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CENTER

Executive Summary

The nation's oldest nonprofit in organizational ethics presents findings from the longest study of ethics and compliance in the workplace.

Since 1994 the Ethics Resource Center (ERC) has implemented the National Business Ethics Survey (NBES), a study of employees across for-profit, nonprofit and governmental sectors in the United States. The 2005 report marks the fourth implementation of the research.

Research Content

The NBES survey asks employees about their perceptions of ethics and compliance at work. Analysis was based upon a framework provided by Federal Sentencing Guidelines for organizations (FSGO), defining elements of formal programs, ethical culture, risk and outcomes expected of an effective program. Findings address:

- Trends in the implementation of formal ethics and compliance programs;
- Evidence of ethical culture in organizations;
- Analysis of risk for misconduct;
- Measures of outcomes expected from effective programs; and
- Analysis of the impact of formal program elements and ethical culture on outcomes.

Key Findings

Some of the findings and conclusions of NBES are as follows.

- On a national level, formal programs are on the rise, but positive outcomes expected of those programs are not.
- Formal ethics and compliance programs do have an impact, but organizational culture, which has changed little over the years of the NBES study, is more influential in determining outcomes.
- Employees are at risk for misconduct, and where they encounter situations inviting wrongdoing, there is high likelihood that they will also observe at least 1 violation taking place.

These findings are further highlighted in the sections that follow.

Rise in Formal Program Implementation

Increasing numbers of employees recognize the presence of formal ethics and compliance programs in their organizations. Five of the six elements of a formal program measured by NBES rose during the years in which questions were asked about these elements:

- Written standards of conduct (up 19 percentage points¹ since 1994);
- Training on ethics (up 32 percentage points since 1994);
- Mechanisms to seek ethics advice or information (up 15 percentage points since 2000);
- Means to report misconduct anonymously (up 7 percentage points since 2003);
- Discipline of employees who violate ethical standards (up 4 percentage points since 2003).

Only one element of a formal program has not increased: the evaluation of employee performance based on ethical conduct decreased by 7 percentage points since 2003.

Outcomes Remain Unchanged or Worsened

Despite the rise in formal program activity, positive outcomes expected from effective programs either remain unchanged or show a decline. These include observed misconduct, reporting behaviors, and pressure to compromise standards.

52% of employees observed at least one type of misconduct in the past year.

Little Change in Levels of Observed Misconduct

Little change has taken place since 1994 in the extent to which employees observe misconduct in the workplace. Remarkably, in 2005 52% of employees observed at least one type of misconduct taking place; 36% of those employees observed 2 or more violations.²

Employee Willingness to Report Misconduct Declined in 2005

Of the employees who observed misconduct at work in 2005, just over one half (55%) reported it to management, a 10 percentage point decrease since 2003 and a backsliding to levels similar to those in 2000.³

¹ Percentage points refers to the difference between two percentages. For example, in 1994 67% of employees said their organizations had written standards. In 2005, 86% indicated as such, resulting in a difference of 19 percentage points.

² Two measures of misconduct are collected in NBES. Increases over time reported here are drawn from a comparison of questions asking employees outright if they have observed misconduct. Levels of observed misconduct are drawn from an analysis of employee observation of specific forms of violations.

³ Based upon general question about misconduct (see footnote #1)

Little Change in Pressure to Compromise Standards

Pressure to compromise standards has also remained unchanged. In 2005, 10% of employees feel such pressure always or fairly often, a level similar to 2003 and down 3 percentage points since 2000.

55% of employees who observed misconduct reported it.

Formal Programs Make a Difference in Weaker Ethical Cultures

The fact that formal programs are increasing while outcomes are at best unchanged raises the question whether ethics programs work. NBES revealed that ethics and compliance programs do make a difference; however, their impact depends upon the culture in which they are implemented. Our key findings are:

1. The more formal program elements the better;
2. Formal programs do have some impact on outcomes in weak cultures;
3. Once a strong culture is in place, formal programs do not have much of an impact on outcomes.

Outcomes are best in cultures that are strong, defined in NBES as the display of certain ethics-related actions at various levels in an organization, and accountability for actions.

Ethical Culture Matters

NBES measured 18 dimensions of ethical culture, and the data show that the actions of leaders and peers significantly influence employees' ethics. For example:

- Where top management displays certain ethics-related actions, employees are 50 percentage points less likely to observe misconduct.
- Ethics-related actions of coworkers can increase employee willingness to report misconduct, by as much as 10 percentage points.
- When employees perceive that others are held accountable for their actions, their overall satisfaction increases by 32 percentage points.

Furthermore, employees in organizations with strong ethical cultures and full formal programs are 36 percentage points less likely to observe misconduct than employees in organizations with weak culture and full formal programs. Importantly, less than 1% employees in strong cultures did not have any elements of a formal program present, and NBES did reveal a relationship between formal programs and cultures. Therefore it is our initial conclusion, subject to further study, that where cultures are strong, it is in part because a formal program is in place. Even further, formal programs

are likely to be an essential element in the maintenance of a strong culture. While culture matters in making an impact, formal programs are still essential to creating a culture.

Growing attention to ethics and compliance must, therefore, be supplemented by attention to culture. In 2005, none of the elements of ethical culture (as measured in this study) increased substantially over past years. This may be one reason that outcomes have remained unchanged.

Employees Are At Risk for Misconduct

When employees are exposed to risk-related situations, they are highly likely to observe actual misconduct taking place. One-third of all employees encounter a situation at work that they think invites ethical misconduct. Of those people, 74% also observed at least one act of misconduct. Among employees who feel pressured to compromise the standards of their organizations, 94% observed at least one type of misconduct.

Outcomes are best in cultures that are strong.

Additional Findings in the NBES Report

NBES 2005 provides additional findings regarding outcomes, formal programs, risk, ethical culture and measurement of impact. Sector, management level, multinational status, and other key indicators driving change are detailed. For example, the report includes information about:

- Employees most likely to observe misconduct;
- Factors in the decision to report misconduct;
- The usefulness of ethics training; and
- The impact of various levels of management on the ethical conduct of employees.

About the Ethics Resource Center

The Ethics Resource Center (ERC) is the nation's oldest non-profit devoted to organizational ethics. We advance understanding of the practices that promote ethical conduct by conducting research and by developing whitepapers and resources based on our findings. ERC also conducts evaluations of ethics and compliance program effectiveness, and provides data for benchmarking the impact of program elements.

For More Information

To order a copy of the NBES report or to learn more about the activities of the Ethics Resource Center, please contact us at 202-737-2227, ethics@ethics.org or visit our website at www.ethics.org.

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