

Five Years After Sarbanes-Oxley, Signs That Smaller Public Companies Present Some of the Greatest Ethics Challenges

Last month's fifth anniversary of the landmark Sarbanes-Oxley Act spurred a flurry of discussion in both business and political circles about that legislation's impact on business practices and its effectiveness in curtailing the kinds of abuses that brought down Enron, WorldCom and other giants early in this decade.

Much of the discussion drew on the views of senior political and regulatory officials in Washington, and of senior corporate executives. An August 7 *Compliance Week* story noted that, when the policy elite came together to discuss SOx at a Washington luncheon in July, it was clear that the law "is still seen more favorably by investors and regulators than by companies caught up in the compliance exercise." There was much talk of the reporting burden now on the larger public companies (soon to trickle down to their smaller brethren) and of whether the additional regulation might be unduly heavy and stifling innovative business practices.

For many people, clearly, the jury is still out – and there is sure to be ongoing discussion of how or whether to refine SOx.

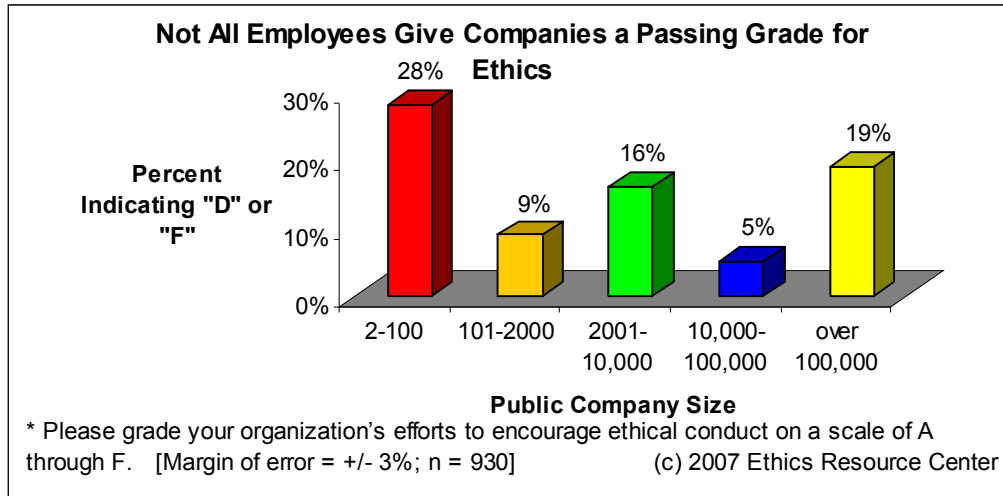
But what do *employees* at U.S. public companies – the people operating in the trenches of American business day in and day out – think of the ethical environment in their workplaces five years after Sarbanes-Oxley was crafted to right a ship overturned by massive scandals? Just days before the SOx anniversary, the Ethics Resource Center released results of a survey of public company workers that yields some surprising – and in a few cases, disturbing – findings.

When we asked more than 900 employees of U.S. public companies (of all sizes) to give their organizations an elementary school-style grade for encouraging ethical conduct, almost 70 percent awarded an "A" or "B."

That sounds pretty good. How many schools have 70 percent of their students earning such high marks?

But when we looked further, ERC found some bad news – and, significantly, the finding that these positive attitudes were not uniform across the spectrum of public companies.

While the "As" and "Bs" were nice to see, roughly one in seven employees gave their employers a below-average grade or failing grade – that is, a "D" or an "F" – *and the lowest marks were most likely at companies with fewer than 100 employees*. At those smallest companies, 28 percent gave one of the two lowest grades, while only 19 percent of workers at companies with 100,000 or more employees judged their organizations so harshly.



Moreover, our nationwide survey found that a significant share of public company employees believe their organizations reward employees for getting good results, even if they use ethically questionable practices along the way.

Overall, 22 percent said results are rewarded by their employers even at the expense of unethical practices. And again, the findings were most discouraging at the smaller companies – where, significantly, the full impact of Sarbanes-Oxley has not yet been phased in.

At public companies with 100 or fewer employees, 37 percent of employees indicated that results are rewarded even at the expense of ethical considerations. At public companies with more than 100,000, on the other hand, only 26 percent gave that answer.

We also asked, “How often does your job conflict with your personal values?” And we found that:

- Overall at public companies, 20 percent of employees said that conflict occurs “sometimes or always;”
- 30 percent of those at organizations with 100 or fewer employees said it occurs “sometimes or always,” while at companies with 100,000 or more employees, 27 percent gave that answer.

According to previous ERC studies, employee perceptions of corporate ethics are driven by several factors – awareness of the importance of ethics as initiated by top management, an organizational culture that reinforces the importance of ethics, and the presence of an ethics and compliance program (including internal controls) that detect misconduct taking place.

ERC’s National Business Ethics Survey (NBES) – last conducted in 2005, with a new survey due out later this year – also has revealed that smaller organizations are less likely to have established all of the above elements that result in positive employee perceptions of corporate ethics. This most recent national poll confirms previous indications that smaller organizations are more challenged and have more work to do in encouraging ethical work environments.

ERC’s national survey was based on telephone interviews with a nationally representative sample of 930 employees at all levels in private sector institutions across the United States (the margin of

error is +/- 3.3%) from June 25 – July 17, 2007, conducted by Opinion Research Corporation, an independent research firm.

President Bush, when he signed Sarbanes-Oxley into law in 2002, characterized it as “the most far reaching reforms of American business practices since the time of Franklin Delano Roosevelt.” He promised “to use the full authority of the Government to expose corruption, punish wrongdoers, and defend the rights and interests of American workers and investors.”

Most people who have followed SOx tend to agree that it has had many positive effects on the large corporations where its impact came first and in the strongest measure, even if they question some ways in which it has been implemented and feel it needs refinement.

ERC’s survey of public company employees shows that the greatest challenges may lie ahead in a surprising place – at the smaller public companies where Sarbanes-Oxley has yet to have its greatest impact.

| For more details about the ERC study, go to: <http://www.ethics.org/download.asp?fid=66>