

Since 1994, the Ethics Resource Center (ERC) has periodically conducted a *National Business Ethics Survey* (NBES). The NBES is the only nationwide longitudinal study that tracks the views of employees at all levels within organizations to reveal a real-life view of their ethics

ERC Warns of an "Ethics Bubble"

BY JAMES A. NORTZ

performance and the ethics risks they face. This year's results, published in mid-November, surprised even the ERC.

Specifically, the ERC's 2009 NBES data show that despite the bad economy:

- Misconduct at work is down from 56 percent in 2007 to 49 percent in 2009.
- Whistleblowing is up to 63 percent in 2009 from 58 percent in 2007.
- Ethical culture in the workplace increased from 53 percent in 2007, to 62 percent this year.
- The perceived pressure to commit an ethics violation — to cut corners, or worse — declined from 10 percent two years ago to eight percent.

The only negative trend was that there was a three-percentage-point increase in "perceive retaliation" against employees as a result of a report of misconduct.

As in past surveys, the 2009 NBES data show a close correlation between a company's ethical performance and the strength of its

ethical culture. Misconduct rates are consistently higher for weak and weak-leaning ethical cultures than they are for those that are strong or strong-leaning. But surprisingly, despite the bad economy, the percentage of companies with strong ethical cultures has increased in the past two years from 9 percent to 18 percent. The ERC suggests that this significant culture shift is not coincidental.

In its report, the ERC observed that this pattern occurred during another period of economic anxiety and dislocation. From 2000 to 2003, the NBES data revealed that ethical performance im-

proved despite the turmoil caused in the business community by the bursting of the dot-com bubble, the events of 9/11 and a string of breathtaking corporate scandals that spurred Congress to pass the SOX legislation.

It may also be that some are less inclined to commit misconduct when management is on high alert." This surmise is bolstered by a surprising correlation the ERC observed between misconduct rates in companies as measured by NBES surveys since 2000 and the Average Monthly S&P 500 Index. When graphed together, the two curves track almost perfectly with one another. This observation is, in part, what caused the ERC to suggest that we may be experiencing an "ethics bubble," just as we did in 2003, that will burst when good economic times return unless company leaders take deliberate action to stop it from happening again. To this end, the ERC makes the following recommendations:

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proved despite the turmoil caused in the business community by the bursting of the dot-com bubble, the events of 9/11 and a string of breathtaking corporate scandals that spurred Congress to pass the SOX legislation. Taking this into account, the ERC states, "A possible explanation is that during hard times, when a company's well-being or even existence may be on the line and regulators are watching, management talks more about the importance of high standards to see the organization through the cri-

For Executives

- Take note of the messages you are sending to employees now.
- Measure the ethical culture of your organization.
- If the findings of your cultural metrics are positive, heighten your current approach as business performance improves.
- Establish performance goals for senior managers on ethical leadership and make ethical leadership a part of executives' annual review.



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For Directors

- Create an ethics committee of the board that is separate from the audit committee and dedicated to addressing issues related to the company's ethical culture and management's ethical leadership.
- Recruit knowledgeable ethics professionals to serve on the board.
- Establish financial incentives for ethical leadership by the CEO.

For Policy Makers

- Emphasize culture and principles by rewarding companies with strong cultures and reduced compliance risks.
- Encourage the creation of board ethics committees.
- Encourage disclosure about corporate ethical culture.

Focus on culture and use cultural metrics to track trends and discern patterns of misconduct, reporting, retaliation, openness and accountability.


For Ethics and Compliance Professionals

Focus on culture and use cultural metrics to track trends and discern patterns of misconduct, reporting, retaliation, openness and accountability.

Start with management, especially if your company is taking

recession countermeasures, and help them to improve their ethical leadership skills.

Prepare for the return to business as usual by taking steps to maintain ethical awareness, even as the economy improves.

Once more, the ERC's *NBES* has provided invaluable insights to the business community, regulators and ethics and compliance professionals to assist them in working together to break the boom-and-bust cycle of ethics performance and achieve sustained improvement in this vital area. You can download your own free copy of the *2009 NBES* by visiting the ERC website at www.ethics.org. 

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