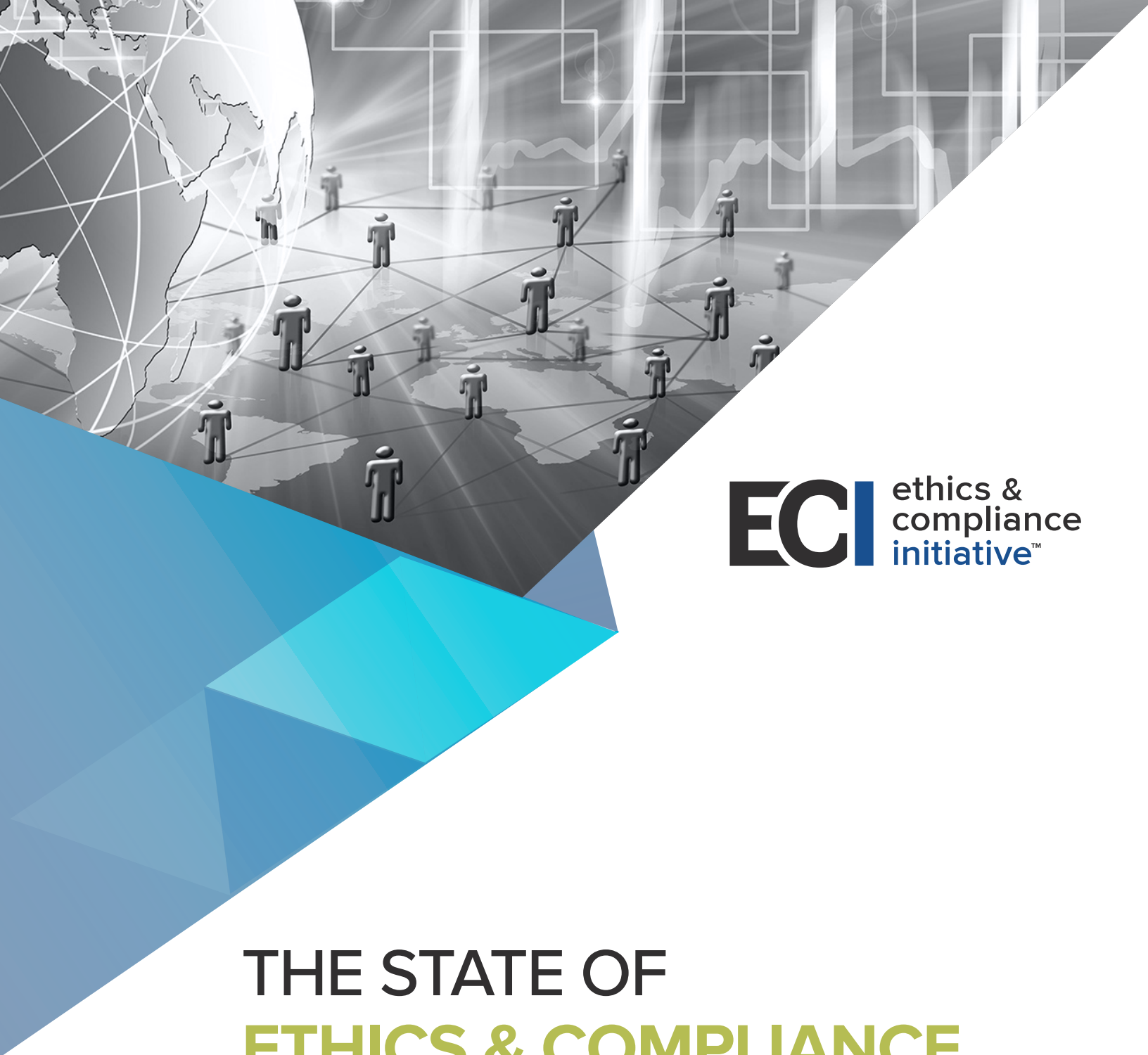




ECI ethics & compliance
initiative™

THE STATE OF **ETHICS & COMPLIANCE** IN THE WORKPLACE

MARCH 2018



GLOBAL BUSINESS
ETHICS SURVEY™

This report is published by the Ethics & Compliance Initiative (ECI).

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For more information, please contact ECI:

2345 Crystal Drive, Suite 201, Arlington, VA 22202

Telephone: 703.647.2185 | FAX: 703.647.2180

www.ethics.org | research@ethics.org



ABOUT ECI

The Ethics & Compliance Initiative (ECI) empowers organizations to build and sustain High Quality Ethics & Compliance Programs (HQPs). ECI provides leading ethics and compliance research and best practices, networking opportunities and certification to its membership.

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For more information on global trends, visit our website to view the interactive maps from our GBES study of 18 countries:

www.ethics.org/GBES



GLOBAL BUSINESS ETHICS SURVEY™

Since 1994, the Ethics & Compliance Initiative (ECI) has conducted a longitudinal, cross-sectional study of workplace conduct, from the employee's perspective.¹ Now in its eleventh iteration, the data from the Global Business Ethics Survey (GBES) provides the global benchmark on the state of ethics & compliance in business.²

Historically, ECI reported findings from the research under two titles: the National Business Ethics Survey, which provided measures of US workplaces; and the Global Business Ethics Survey, which expanded the study to include workplaces around the world. In 2017, ECI updated both the US and global measures, now under a single banner of the Global Business Ethics Survey. This report, *The State of Ethics & Compliance in the Workplace*, summarizes our latest findings, focusing only on responses from employees across the United States. This impactful report follows the format that ECI has been delivering for more than a decade related to US workplace behavior. For more global information visit our interactive website of 2018 Global studies -- www.ethics.org/GBES.

This is the first report of a four-part series in 2018.

This report focuses on the four major outcomes that ECI has found to be critical measures of organizational conduct. When organizations prioritize integrity, employees are:

- Less likely to feel pressure to violate ethics standards;
- Less likely to observe misconduct;
- More likely to report misconduct they observe; and,
- Less likely to experience retaliation for reporting.

Additionally, this report provides an overview of the current strength of companies' ethical cultures, which significantly influence workplace conduct. Lastly, the report concludes with recommendations for business leaders who are committed to a high standard of integrity in their organizations.

1. The National Business Ethics Survey and the Global Business Ethics Survey have historically been fielded by the Ethics Resource Center (ERC). In 2014, ERC entered into a strategic alliance, and the organization is now known as the Ethics & Compliance Initiative (ECI).

2. NBES was implemented in 1994, 2000, 2003, 2005, 2007, 2009, 2011, 2013 and 2017. GBES was implemented in 2016 and 2017.

EXECUTIVE SUMMARY

Conduct in US workplaces continues to shift. Based on historic findings and current indications, ECI suggests that leaders brace for employee conduct to worsen in the days ahead.

THE GOOD NEWS

Rates of observed misconduct are on the decline, coming close to historic lows. Reporting of suspected wrongdoing has reached an historic high.

THE BAD NEWS

More employees feel pressure to cut corners than ever before, and rates of retaliation for reporting wrongdoing have doubled in the past two years. Pressure and retaliation are the two metrics most closely associated with trouble ahead.

THE WORST NEWS

Little progress has been made across the country to implement the most important strategy for mitigating wrongdoing. Misconduct drops substantially when organizations have strong cultures in place, yet the number of organizations with strong cultures has not changed.

SO WHAT?

After nearly a quarter of a century studying employee perspectives of ethics in the workplace, ECI has proven that if companies do not take the steps that improve their workplace cultures, conduct among employees will decline. In light of the worsening of two key indicators (pressure and retaliation), along with the status quo of organizational culture, trouble may be ahead.

KEY OUTCOMES:

PRESSURE TO COMPROMISE STANDARDS



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THE GOOD NEWS

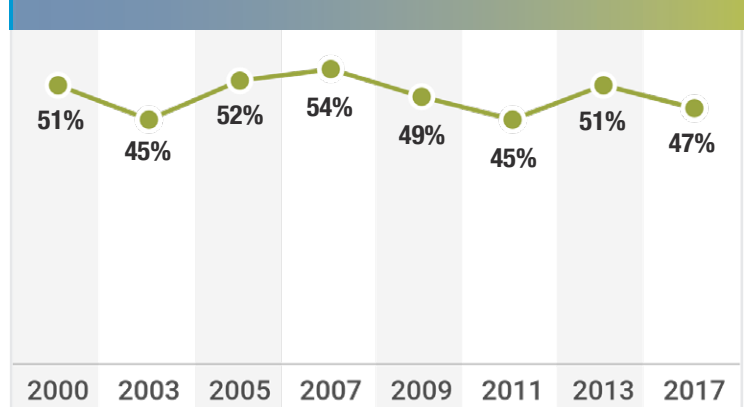


OVERALL, RATES OF OBSERVED MISCONDUCT HAVE DECLINED

In 2013, 51% of employees said that within the last 12 months they observed conduct that either violated organizational standards or the law. In 2017, 47% reported observing misconduct; an 8% decrease and close to the historic low.

Of those who observed abusive behavior, 63% of employees reported that the misconduct they observed was committed by someone in management or a first-line supervisor. Those who observed the misconduct said that 67% of the wrongdoing consisted of multiple incidents or was part of an ongoing pattern.

PERSONALLY OBSERVED MISCONDUCT



Despite the decline in misconduct overall, the most frequently observed types of misconduct remain virtually unchanged since 2013.

MOST OBSERVED TYPES OF MISCONDUCT

OBSERVED ABUSIVE BEHAVIOR

20%

21%

OBSERVED INTERNET ABUSE

18%

16%

OBSERVED CONFLICTS OF INTEREST

16%

15%

OBSERVED HEALTH VIOLATIONS

14%

15%

OBSERVED LYING TO EMPLOYEES AND EXTERNAL STAKEHOLDERS

28%

26%

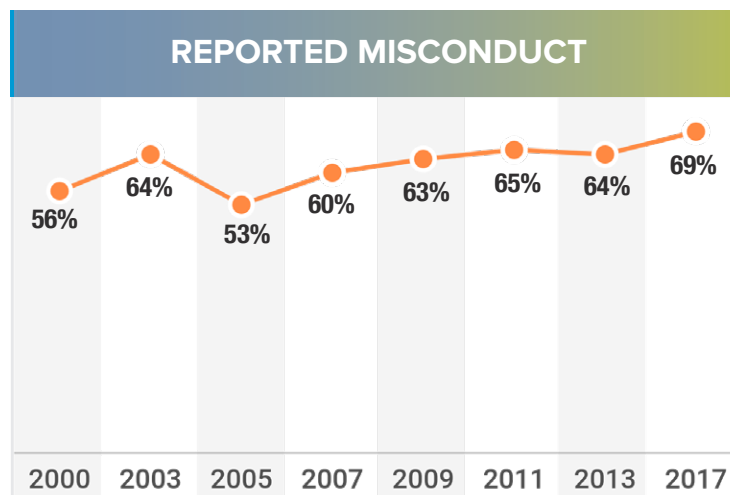
■ 2013 ■ 2017

MORE GOOD NEWS



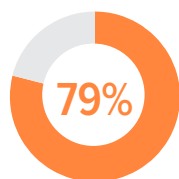
EMPLOYEES ARE REPORTING MISCONDUCT AT THE HIGHEST RATES EVER

Sixty-nine percent of employees said they reported the misconduct they observed. This is a 23% increase since the inception of ECI's research.

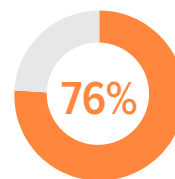


LEADING TYPES OF MISCONDUCT REPORTED IN 2017

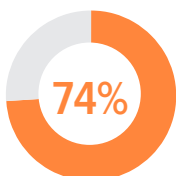
MISUSE OF CONFIDENTIAL
INFORMATION



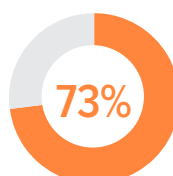
GIVING ACCEPTING
BRIBES/KICKBACKS



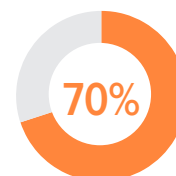
STEALING



FAILED SPECIFICATIONS



SEXUAL HARASSMENT



THE BAD NEWS



EMPLOYEES ARE EXPERIENCING MORE PRESSURE TO COMPROMISE STANDARDS THAN EVER BEFORE

In 2017, 16% of employees experienced pressure to compromise standards; a 23% increase over the last measurement. This is part of an ongoing trend, as pressure has increased substantially in the last decade.



WHERE THERE IS SMOKE, THERE IS FIRE

PRESSURE & OBSERVED MISCONDUCT

84%



39%



Pressure matters because it leads to misconduct: 84% of those who feel pressure also observed misconduct. This is a 115% increase compared to those who do not feel pressure.

REWARDING QUESTIONABLE PRACTICES

63%



32%



Pressure creates an environment in which questionable business practices are almost twice as likely to be accepted. 63% see such practices rewarded, fueling the likelihood that violations will appear.

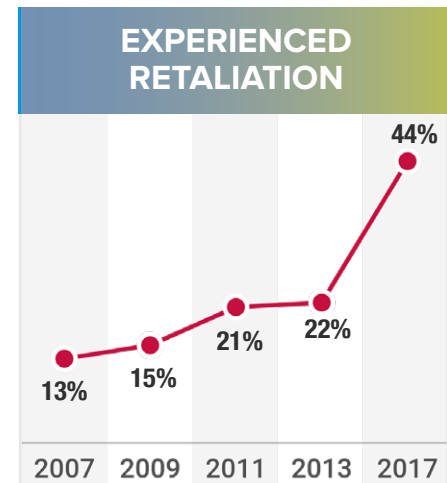
■ Experienced Pressure ■ DID NOT Experience Pressure

MORE BAD NEWS

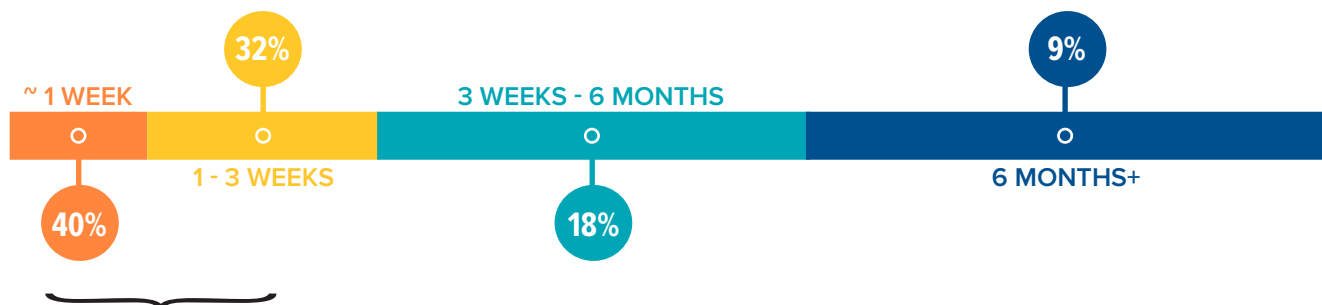


INSTANCES OF RETALIATION AGAINST EMPLOYEES DOUBLED

The rate of retaliation against employees for reporting wrongdoing doubled since 2013. While in past years of this research, ECI revealed that reporting and retaliation rise and fall together, what is most concerning is that in 2017, retaliation rose significantly higher than reporting – a 100% increase as opposed to a 7% increase in reporting.



TIME ELAPSED BETWEEN REPORT AND RETALIATION



Retaliation happens quickly: 72% of employees who experienced retaliation said that it occurred within three weeks of their initial report.

MISCONDUCT WITH HIGHEST RATES OF RETALIATION FOR REPORTING



83% Accepting Gifts/Kickbacks or Bribing Public Officials



62% Improper Political Contributions



56% Retaliation against a Reporter

Most retaliation occurs within three weeks of the initial report.

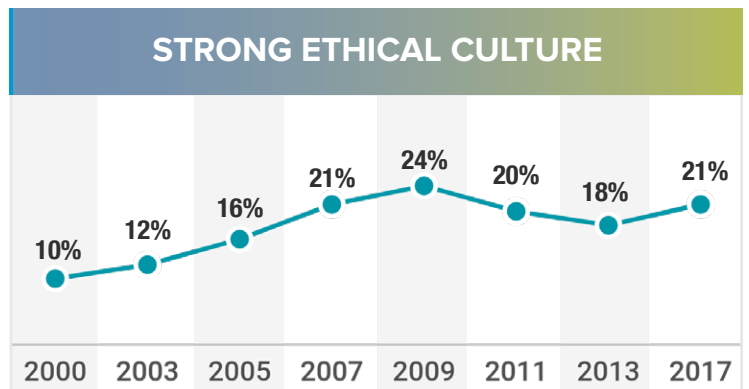


THE WORST NEWS

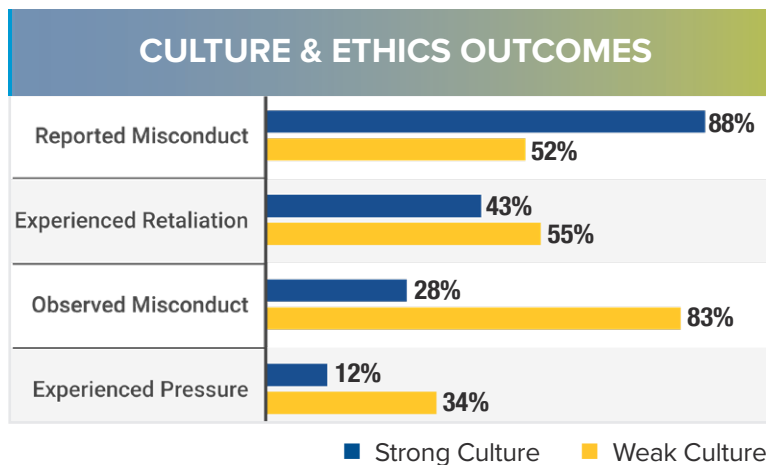


LITTLE PROGRESS HAS BEEN MADE TO IMPLEMENT ONE OF THE MOST IMPORTANT STRATEGIES FOR MITIGATING WRONGDOING

The single biggest influence on employee conduct is culture. **In strong cultures, wrongdoing is significantly reduced.** Yet only one in five employees indicate that their company has such an environment. This status remains largely unchanged over the past decade. Furthermore, in 2017, 40% of employees believed that their company has a weak or weak-leaning ethical culture; a trend that has not notably changed since 2000.



Culture is defined as the shared understanding of what really matters in an organization, and the way things really get done. ECI measures culture by gauging employee perceptions about ethics-related actions of management, supervisors, and non-management employees.



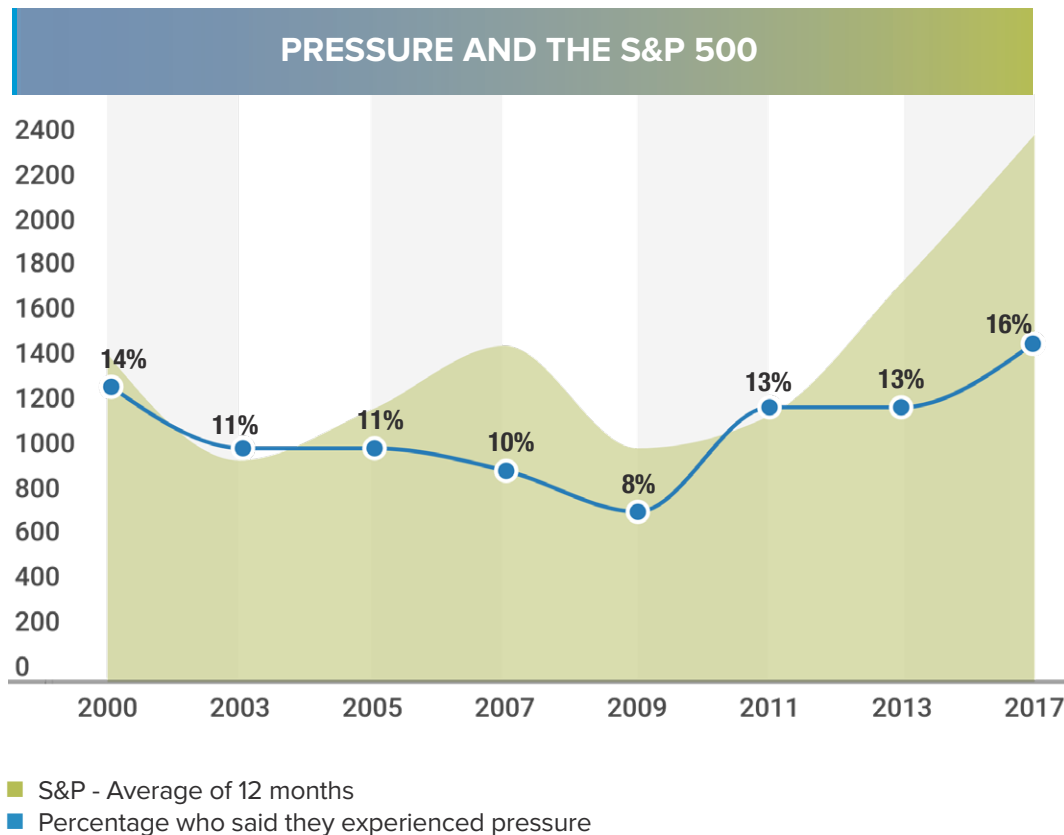
CULTURE MATTERS

Compared to employees in strong cultures, employees in weak cultures are:

- **Three times** more likely to say they **experienced pressure to compromise standards**
- **Three times** more likely to say they **observed misconduct**
- **41% less likely** to **report observed misconduct**
- **27% more likely** to say they **experienced retaliation** after reporting misconduct

SO WHAT?

Historic GBES studies indicate workplace conduct tends to change with market conditions. This trend continues in 2017. In study periods when the market experienced a downturn, our research showed fewer employees felt pressure to compromise standards. Results of this update show that as the market improves, the pressure to compromise increases.



ECI has shown that companies can curb the negative impact of external forces, such as the economy, by taking steps to strengthen their cultures.



These findings are troubling, because increases in pressure have shown to precede a weakening of ethical cultures. As that happens, as already shown in this report, conduct worsens. After nearly a quarter of a century studying employee perspectives of ethics in the workplace, ECI has shown that companies can curb the negative impact of external forces, such as the economy, by taking steps to strengthen their cultures. Yet, this report indicates the state of ethical cultures across the country remain unchanged. Unless organizations take action, it is our view that trouble may be ahead.

RECOMMENDATIONS

FOR BUSINESS LEADERS IN ORGANIZATIONS WITH LITTLE TO NO ETHICS & COMPLIANCE PROGRAM:

The time is now to make ethics & compliance a priority. Historically, this body of research has revealed that the following first steps will make a difference for businesses regardless of size and industry.

- Implement an ethics & compliance program with the elements defined in Chapter 8 of the US Federal Sentencing Guidelines. These programs are essential first-steps to establishing a strong ethical culture.
- Develop a statement of values. Define the standards that should guide employees' actions. Promote the values throughout the organization.
- Set performance goals for senior leaders and managers to visibly support the values of the organization and to reinforce the importance of employee reporting. If a manager's income is dependent on his/her commitment to ethics & compliance, it will become a priority.

ECI offers a free “tool kit” at www.ethics.org to help you begin to formalize your ethics & compliance program.

FOR BUSINESS LEADERS IN ORGANIZATIONS WITH AN ETHICS & COMPLIANCE PROGRAM IN PLACE:

Do not take your established efforts for granted. When organizations undergo transition, or when circumstances around the company change, misconduct rises, and culture erodes. Programs are often slow to adjust to new realities.

- Regularly ask your employees about the pressure they feel and reinforce to them that performance without integrity is unacceptable.
- Raise the bar for your E&C program. Truly successful programs integrate E&C across all aspects of the business. Evaluate the quality of your E&C program, relative to the High Quality Program (HQP) standard and industry peers.
- Reinforce the importance of culture among managers. Assess your culture and provide additional support to areas of your business where employees perceive it to be weak.

ECI's HQP principles and our Blue-Ribbon Panel report Principles & Practices of High-Quality Ethics & Compliance Programs are available at www.ethics.org.

METHODOLOGY

Over the years, ECI has polled and reported findings on more than 39,000 employees through our national ethics survey research. In 2017, we collected 5,101 responses. Participants in the 2017 GBES were 18 years of age or older, currently employed at least 20 hours per week for their primary employer, and working for a company that employs at least two people. They were randomly selected to attain a representative national distribution. The survey opened November 20, 2017, and closed December 18, 2017.

Survey questions and sampling methodology were established by ERC; data collection was managed by Precision Sample. Analysis by ECI 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, outcomes, and ethics risk. The sampling error of the findings presented in this report is +/-1.4 percent at the 95 percent confidence level.

In all survey years except 2009, data were weighted by age, gender, and education. In 2009 information about education was not available and survey data were weighted by age and gender only. In 2011, data was collected by telephone and online, and it was weighted to equalize the proportion of telephone respondents to online respondents. In 2013, ECI collected responses from both telephone and online respondents. For this report, ECI only included responses from online respondents from 2013. In 2017, ECI only collected responses from online respondents.



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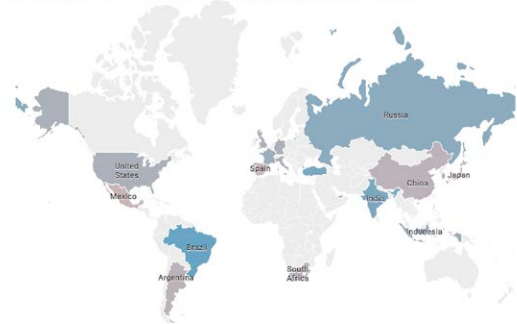
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2018 GLOBAL BENCHMARK ON WORKPLACE ETHICS

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KEY OUTCOMES:

PRESSURE TO COMPROMISE STANDARDS



www.ethics.org/GBES



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RESEARCH



TRAINING & CERTIFICATION

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COMING LATER THIS YEAR.**

This report is the first of a four-series
with installments following in
May, July and October 2018.

