

Unethical Workplace Is Still With Us

“AN INFECTIOUS GREED HAS CONTAMINATED American business”—Federal Reserve Board Chairman Alan Greenspan

The well-advertised business scandals of the last few years seem to indicate that Greenspan’s perspective is well founded. Further evidence that reports of business fraud are on the increase is contained in the recently released Fraud Survey 2003 by Big Four accounting firm KPMG (available on KPMG’s website at www.us.kpmg.com/RutUS_prod/Documents/9/FINALFraudSur.pdf). The study surveyed 459 public companies with revenues of more than \$250 million along with state and federal government agencies. Results were benchmarked against similar KPMG studies conducted in 1994 and 1998.

Seventy-five percent of the respondents reported they experienced an instance of fraud during the previous 12 months, an increase of 13 percentage points from 1998. The most costly frauds are those involving financial reporting, and these incidents have more than doubled since the last survey.

Detection of fraud by means of internal controls and

internal auditing increased substantially to 77% and 53%, respectively, of the cases reported. The external audit continued as the least productive detection method at only 12%. Three out of four organizations have already put new controls into place as a result of the Sarbanes-Oxley Act of 2002, and a similar number will implement new

anti-fraud measures. Possibly as a result of these actions, the largest single factor causing fraud losses that declined in occurrence from the previous survey is inadequate internal controls. Yet collusion between outside parties and employees (for example, a kick-back from a vendor) is a growing contributor to fraud.

Another survey of worker attitudes, this one conducted by the HR consulting firm Watson Wyatt, indicates that monetary loss is neither the only nor even the most important ethical lapse in the workplace. The new study,

WorkUSA2004: U.S. Workers Cite Hypocrisy and Favoritism—Rather than Financial Misdeeds—As Biggest Ethical Lapses at Work (available at www.watsonwyatt.com/research/deliverpdf.asp?catalog=ONL008&id=x.pdf), also gives a rather grim view of the ethical climate

Rather than more concrete legal or financial misdeeds, the biggest ethical shortcomings at all levels cited are favoritism and hypocrisy.

in American business. Sixteen percent of the respondents either disagreed or disagreed strongly with the statement: "Top management in our organization behaves with honesty/integrity in their business activities." Immediate bosses fared a little better with 11% in disagreement with the statement and coworkers at 9%. About the same number, 9%, noted that the "demands of work 'almost always' or 'often' put pressure on them to do things that conflict with what they think is right."

Rather than more concrete legal or financial misdeeds, the biggest ethical shortcomings at all levels cited are favoritism and hypocrisy. Coworkers were also seen as showing disrespect and knowingly violating company policies. Employee com-

mitment to the organization dropped about five percentage points since the last survey two years ago. And almost a third of employees would leave their company if they could.

Though 77% say their company has a clear code of conduct or ethics policy that is communicated clearly to employees, a sizable number, 19%, worry that an employee who reports unethical behavior would be considered a "troublemaker."

Good leadership from the top continues to be the most important driver of an effective corporate culture, which leads to better performance. It's not enough for a company to profess a code of conduct. Quoting SEC Chair William Donaldson, who said: "The most important thing that a board of

directors should do is determine the elements that must be embedded in the company's moral DNA..." *Financial Times'* Simon London wrote, "Managers need to be as well attuned to morals as to margins" (*Financial Times*, February 10, 2004, p. 13).

In brief, it appears that considerable effort needs to be expended before ethical behaviors are widely practiced at all levels of organizations. ■

Curtis C. Verschoor is the Ledger & Quill Research Professor, School of Accountancy and MIS, DePaul University, Chicago and Research Scholar in the Center for Business Ethics at Bentley College, Waltham, Mass. His e-mail address is cverscho@condor.depaul.edu.