# Ethical Culture: Most Important Barrier to Ethical Misconduct

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▶ The Ethics Resource Center (ERC), a nonprofit U.S. organization devoted to the advancement of organizational ethics, has released the results of its 2005 National Business Ethics Survey (NBES) of more than 3,000 American workers. The findings show that more than half of U.S. employees have observed at least one example of workplace ethical misconduct in the past year, and 36% have observed two or more. This represents a slight increase from the results of the 2003 survey. During the same period, willingness to report observed misconduct at work to management declined to 55%, a decrease of 10 percentage points since 2003.

The increase in misconduct and decline in reporting occurred despite the fact that workers are more aware of formal ethics and compliance programs in their organizations. The NBES survey measures workplace ethics, implementation of formal ethics programs and their impact, and factors that pose risks of misconduct. Types of misconduct employees observed most include:

● 21% observed abusive or intimidating behavior toward employees.

● 19% observed lying to employees, customers, vendors, or the public.

● 18% observed a situation that placed employee interests over organizational interests.

● 16% observed violations of safety regulations.

● 16% observed misreporting of actual time worked.

On the positive side, implementation of five of six elements of the model formal ethics and compliance program set forth by the U.S. Sentencing Commission has increased since 2004, with the presence of written standards of business conduct up 19 percentage points. The survey also showed that 69% of employees reported their organization has ethics training, up 14 percentage points since 2003, and 65% indicated their organizations have a place where they can seek ethics advice. The only element of the model program to show a decrease in compliance since 2003 was the percentage of employees who said their supervisors evaluate ethical conduct as a part of their job performance, which was down to 69% from 74%.

Noting the divergence between increases in formal program participation and decreases in positive outcomes, ERC President Patricia Harned observed that "organizations, especially for-profit compa-



nies, have invested significant resources in ethics and compliance programs," yet ERC isn't seeing a lot of change in the direct impact they are having. She believes that "organizations need to evaluate what will work most effectively, including a closer look at the role workplace culture plays."

Perhaps the most important finding in the 2005 NBES research is the significance of the ethical culture in organizations as a determinant of observed ethical behavior and the readiness of employees to report misconduct they see to a higher authority. The study found that employees in organizations with a weak ethical culture reported a much higher level of observed ethical violations than those with a strong ethical culture (70% compared to 34%). Those employees in organizations with a strong ethical culture were also much more likely to report misconduct to higher-ups than those in weak-culture organizations (79% compared to 48%).

"Creating a strong ethical environment should be a top priority of all companies," Harned concluded. "This data shows, for example, that management needs to lead by example to set the right tone throughout the organization."

The NBES survey report points out that outcomes are most positive when ethical cultures are strong—defined as having accountability for actions and the display of certain ethics-related actions at various levels in an organization. The report notes that actions of leaders and peers significantly influence employees' ethics, concluding that "where cultures are strong, it is in part because a formal ethics and compliance program is in place." Even further, the report says, "Formal ethics and compliance 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."

The final finding of the NBES report describes the impact of employees' exposure to risk of misconduct. Risk factors include:

- Employee exposure to circumstances that invite misconduct.
- Employee recognition of those situations as misconduct.
- Pressure to compromise the standards of the organization.
- Preparedness of employees to respond to these situations.

The report indicates that one-third of all employees encounter a situation at work that they think invites ethical misconduct. Of those people, 74% observed at least one act of misconduct. Among employees who felt pressured to compromise the standards of their organizations, 94% observed at least one instance of ethical misconduct.

To summarize the NBES findings, the positive outcomes of lower observed wrongdoing and greater likelihood of reporting violations should they occur is associated with a superior ethical culture in an organization, and the presence of a formal ethics and compliance program has less impact than the strength of the ethical culture.

Another survey of employee perceptions of ethical misconduct was issued at about the same time as the NBES report. This research was sponsored by the Hudson Highland Group (HHG), an international staffing provider, and is based on a national poll of 2,099 U.S. workers. The results and conclusions of the HHG survey mirror those from the NBES. The HHG survey states that nearly one-third of U.S. workers have witnessed co-workers engaging in ethical misconduct, yet only half (52%) of those witnessing unethical or illegal acts reported it to anyone in authority. Despite this prevalence of wrongdoing, 78% of U.S. workers state that their companies clearly communicate what they consider unethical and ethical behavior in the workplace.

According to David Rhind, HHG North American counsel, encouraging employees to do the right thing when they seem to know what that is requires fostering better ethics in the workplace. Rhind states, "Even with clear ethics policies in place, companies must create a culture of integrity throughout the organization by providing both the means and the mandate to report concerns." He adds, "When senior executives lead by example, employees are more likely to follow suit."

Additional conclusions suggested by the findings of these two independent studies include:

- Companies need to increase their recognition of the importance of the tone at the top. Senior management and the board of directors must engage in hands-on efforts to cultivate a climate of ethical behavior by their actions. The ethics-related duties of boards of directors of all companies—private as well as public and nonprofit as well as for-profit—are clearly set forth in the U.S. Sentencing Guidelines.
- Actions of managers at all levels speak much louder than all the words contained in a formal ethics and compliance program. For example, employees need to understand that "gaming" of an incentive compensation system won't be tolerated and that violators will be punished.

How strong is the ethical culture in your organization? ∎

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