

# Are We Experiencing an Ethics Bubble?

Results of the sixth National Business Ethics Survey suggest that fewer instances of ethical misconduct are being observed, a higher percentage is being reported, and more employees perceive that the ethical culture within their company is strong.

Evidence that ethical conduct in the workplace improved during the recent recession is contained in the sixth National Business Ethics Survey® (NBES). While conventional wisdom says that a downturn results in greater amounts of fraud being committed, facts may prove that more fraud is being *discovered* rather than more fraud being *committed*. These studies of interviews with employees in the U.S. workforce are a biennial effort of the Washington-based Ethics Resource Center (ERC). ERC is a private, nonprofit organization devoted to independent research and the advancement of high ethical standards and practices in public and private institutions.

The 2009 NBES study, titled *Ethics in the Recession*, is based on 3,010 interview responses to a random national telephone survey. Respondents were 18 years or older and currently employed at least 20 hours per week for a company with at least two employees. Those

working in the government sector were removed from the analysis.

The report found that most key measures of ethical behavior actually improved from those reported in 2007, shortly before the recession started. NBES detected a similar pattern occurring from 2000 to 2003 when a severe downturn took place because of the dot-com bubble, 9/11, and corporate scandals such as Enron and World-Com. Because ethical wrongdoing returned as business conditions improved, organizations today need to stay alert and keep their ethics and compliance programs intact in order to keep their ethical culture at a strong level.

Former Ohio Representative Michael Oxley, who was the cosponsor of the 2002 Sarbanes-Oxley Act and now is chair of the ERC board of directors, said, “Business ethics is one of the pillars of a strong economy, and, in today’s environment, it is more important than ever that our nation’s business leaders set and meet the highest standards of ethical conduct. [Ethics in the Recession] provides an important measure of the strengths and weaknesses of our culture of business ethics.”

Perhaps the most significant finding reported in the NBES

study is that substantially fewer employees said they had witnessed misconduct on the job. This metric, which includes violations of company ethics standards, policy, or the law, fell seven percentage points from 56% of interviewed employees in 2007 to 49% in 2009. This compares to an average of 52.3% of surveyed employees in the previous four studies. The types of misbehaviors observed stayed relatively constant, however, with company resource abuse, abusive behavior, lying to employees, and e-mail or Internet abuse the most common.

The favorable strong downward trend in observed ethical misconduct was matched by an almost equally large increase in employee reporting of any observed misbehavior. This measure increased from 58% in 2007 to 63% in the latest report, compared to an average of 57.8% of surveyed employees in the previous four studies. As in the past, most reports of misconduct are made to management—either a direct supervisor or higher-level management.

Perhaps the most favorable result reported in *Ethics in the Recession* is the percentage of employees that perceive their company’s work culture is strong. This

measure increased from 53% in 2007 to 62% in 2009. This result averaged 55.5% in the previous four studies. A strong ethical culture consists of ethical leadership, accountability, and values, not just the existence of rules or a written ethics code.

As in past studies, the 2009 report showed there's a strong association between rising awareness in ethics and a strengthening ethical culture in times of anxiety, worry, and dislocation. A likely reason involves supervisors and managers speaking more often and more convincingly about ethical behavior or other ethics-related issues in times of concern about the company's well-being or even its continued existence. Another reason may be that employees who are prone to misbehave aren't as likely to take risks in times of high alert by management.

In the 2009 study, further questions were asked to ascertain whether and how the recession may have impacted the ethical culture and standards of conduct. Overall, 78% of those interviewed said that they or a colleague had been affected by their company's effort to cope with the recession. The largest percentage experienced the effects of hiring freezes, adjusted work schedules, and layoffs.

A small percentage (22%) of respondents reported that the recession "has negatively impacted the ethical culture within my company." Only 10% said "to stay in business during the recession, my company has lowered its ethical standards." When employees felt that the ethical culture in their company had been negatively

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impacted, misconduct rose by a whopping 16 percentage points. Where the recession caused lower ethical standards, employees observed 23% more misconduct.

The NBES report relates that even when employees didn't say that their company's ethical culture had been impacted by the recession, some company tactics for coping with the effects of the recession made a big difference in observed misconduct and non-reporting of misconduct. Tactics include actions such as layoffs, compensation or benefit reductions, hiring freezes, and plant slowdowns or closings. Observed misconduct in companies employing one or more of such tactics was 26 percentage points higher than the rate in companies that did not. Unreported misconduct was 15 percentage points higher in companies employing at least one recession-coping tactic. In other words, there were measurable effects on employees' sense that they worked in an ethical environment.

The percentage of employees who consider themselves strongly

engaged with their company and job was inversely proportional to the number of recession-coping tactics their employer utilized. In companies that used no such tactics, 88% consider themselves strongly attached to the company and determined to work to achieve its objectives. This compares to 67% for companies that utilized five or more tactics. The report concludes that these attitudes of engagement have a positive effect on turnover, productivity, and other favorable outcomes.

The 2009 NBES also included questions designed to investigate employee attitudes related to employee trust and perceptions of senior leaders. Research objectives included whether employees thought executive compensation was fair and appropriate, whether management was forthcoming about the financial health of the organization, and whether the U.S. government had gone too far or not far enough in interceding in the private sector.

The result of these questions, compiled into an index, showed a surprisingly positive impact of trust and confidence. A strong majority of interviewed employees, 71%, feel that their workplace is open and informative. Nearly 80% of the interviewees also said they work in an environment where, in practice, employees at all levels are held accountable to company standards.

In answer to questions of government oversight and intervention, the study found that the weaker the ethical culture in a company, the larger the percentage of employees believing that more government involvement is

required. Answers were split on the optimal level of government oversight, with 41% believing there was too little and 38% thinking there was too much.

The NBES report lists the principles of transparency and accountability that are integral to ethical culture, which ERC describes as having four essential elements:

- ◆ Ethical leadership
- ◆ Supervisor reinforcement
- ◆ Peer commitment
- ◆ Embedded ethical values

All organizations should make sure these characteristics are present in their workplace.

While only a small percentage of U.S. employees indicate that they feel pressure to compromise ethical standards in order to do their jobs, the 2009 research con-

tinues the findings of previous ERC studies. This pressure is strongly associated with actual observations of wrongdoing. In other words, pressure is an important indicator that misconduct may be taking place.

The principal finding in *Ethics in the Recession* that failed to indicate positive ethical progress since 2007 involves retaliation. Fifteen percent of employees who observed and reported misconduct perceive they were retaliated against as a result, compared to 12% in the previous report. Retaliation can take many forms, from a “cold shoulder” to verbal abuse by your peers, your supervisor, or someone else in management. More significant retaliation was exclusion from decision making and work activity, compensation

freezes, and almost losing the job.

In summary, effective ethics and compliance programs continue to be important to maintaining a strong ethical culture, an important contributor to organizational success. **SF**

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