Curtis C. Verschoor, CMA, CPA, Editor

Is Business Ethics Getting Better or Worse?

Depending on which report you read, the amount of wrongdoing in business could be expanding or shrinking. Regardless of which report is more accurate, the rate of fraud and unethical acts is still high enough to pose a risk to companies in the United States and around the world.

Several recently published reports discussing the incidence of fraud within the business environment provide conflicting evidence as to whether the rate of wrongdoing in companies is increasing or decreasing. It's possible that the rate for some kinds of misdeeds might be decreasing in the United States but growing globally.

One report that describes increasing unethical behavior is the *2014 Global Economic Crime Survey* (GECS), "Economic Crime: A Threat to Business Globally," published by PricewaterhouseCoopers (PwC). This report says that global economic crime continues to be a major concern for organizations of all sizes, across all regions, and in virtually every sector, as 37% of all organizations report being hit by economic crime. Fraud rates increased from 30% of companies in 2009 to 34% in 2011 and 37% in 2014.

According to the survey, the five most common types of fraud consistently reported are asset misappropriation (69%), procurement fraud (29%), bribery and corruption (27%), cybercrime (24%), and accounting fraud (22%). The highest levels of economic crime are consistently reported by respondents in Africa (50%) and North America (41%), and the lowest levels are reported in the Middle East (21%). According to PwC's Steven Skalak, "The real story is that economic crime is threatening your business processes, eroding the integrity of your employees, and tarnishing your reputation."

The U.S. Supplement to the survey (GECS-U.S.) reports that 45% of responding U.S. organizations suffered from economic crime in the past two years, and 71% of respondents perceived an increased risk within that period. The study states, "54% of U.S. respondents reported their companies experienced fraud in excess of $100,000 with 8% reporting fraud in excess of $5 million." Asset misappropriation continues to be the largest type of misdoing, but it has dropped in significance from 93% in 2011 to 69% in 2014. Cybercrime was the second-largest crime category at 44%, a slight increase from 40% in 2011. Accounting fraud increased from 16% in 2011 to 23% in 2014. Procurement fraud was introduced to the study in 2014 and is the third-largest fraud category, amounting to an incidence rate of 27%. The major aspects of procurement fraud occur at the vendor level, where key participants in the process influence vendor selection or maintenance. Procurement fraud during the payment process occurred in 43% of the cases, both in the U.S. and globally.

The U.S. General Services Administration (GSA) Office of Inspector General describes some of the mechanisms:

- **Bid Rigging.** Fraud that impedes free and open competitive bidding to obtain the best goods and services at the lowest price.
- **Kickbacks.** Any money, fee, commission, gift, credit, gratuity, or item of value that is provided either directly or indirectly in exchange for preferential treatment.
- **Bribery.** The offering, receiving/giving, or soliciting of anything of value to influence action as an official or in discharge of legal or public duty.

- **Collusion.** The secret combination, conspiracy, or concert of action between two or more persons for fraudulent or deceitful purpose.

The GECS-U.S. also reports that bribery and corruption are on the rise and present a higher risk than money laundering and anticompetitive practices. Although only 14% of global and U.S. companies reported their organization had been asked to pay a bribe in the last 24 months, the risk of bribery and corruption is growing as companies increasingly operate and pursue opportunities in high-risk markets. As sales and marketing staffs experience pressure to deliver higher sales, the risk of bribery and corruption is likely to increase.

More favorable news is provided by the 2013 *National Business Ethics Survey®* (NBES), published by the Ethics Resource Center (ERC). This survey is frequently described as the national benchmark for business ethics, and the ERC is devoted to independent research and the advancement of high ethical standards and practices in public and private organizations.

The report found that the amount of misconduct in U.S. businesses declined substantially for the third straight survey, putting it at the lowest point since the ERC began conducting the survey. There was other positive news as well. The percentage of workers who observed misconduct dipped from 45% in 2011 to 41% in 2013, yet this is still a large proportion of the total workforce. The pressure to compromise ethical standards, which is often a leading indicator of future misconduct, fell substantially from 13% in 2011 to 9% in 2013. This could be a sign that companies are implementing stronger ethics cultures in their workplaces.

While the NBES report expresses an overall positive view of current ethical behavior in business, it also expresses a number of warnings. A relatively high percentage of misconduct (60%) is committed by people having some level of managerial authority—"the very people who are supposed to set a good example of ethical conduct and make sure that employees honor company rules," says the report. And 24% of observed unethical behavior involved senior managers. Patricia Harned, ERC president, says that managers should be held to a higher standard: "The nature of [observed] misdeeds is alarming. A strong majority of misconduct is attributable to individuals who hold some level of management responsibility. If allowed to persist, rule-breaking by managers bodes ill for ethics cultures, because managers set the tone for everyone else."

Equally troubling is that 41% of observed misconduct was committed by multiple people and represented an ongoing pattern within an organization—which means they weren't just isolated incidents. About 12% of misconduct was identified as "company-wide," suggesting that the organization had deeper ethical issues. The types of misconduct characterized as company-wide were:

- Offering something of value (e.g., cash, gifts, entertainment) to customers/clients (24%);
- Health/safety violations (22%);
- Offering something of value to public officials (20%);
- Violating employee benefits, wage, or overtime rules (20%); and
- Violating Internet policies (20%).

The percentage of workers who decided to blow the whistle on misconduct they observed fell slightly to 63% from 65% in 2011 after consistently rising in previous NBESs. Being silent about misconduct enables workplace culture to erode with bad behavior. The percentage of whistleblowers who experienced retaliation after reporting wrongdoing declined from 22% in 2011 to 21% in 2013. This is still disturbingly high since fear of retaliation is a key concern that workers cite for remaining silent when observing wrongdoing. Harned stated, "Reducing retaliation rates is one of the most important challenges facing businesses as they strive for strong ethics cultures."

The ERC believes that increasingly sophisticated ethics and compliance programs are likely to result in improved worker conduct. And the report found more

For guidance in applying the *IMA Statement of Ethical Professional Practice* to your ethical dilemma, contact the IMA Ethics Helpline at (800) 245-1383 in the U.S. or Canada. In other countries, dial the AT&T USA Direct Access Number from www.usa.att.com/traveler/index.jsp, then the above number.

evidence that many companies are taking a proactive approach to creating a strong ethical culture:

- The percentage of companies providing ethics training rose from 74% to 81% between 2011 and 2013.
- Two-thirds of companies (67%) included ethical conduct as a performance measure in employee evaluations, up from 60% in 2011.
- Almost three out of four companies (74%) communicated internally about disciplinary actions when wrongdoing occurs.

A possible explanation for some of the differing views contained in the NBES and the GECS reports may be that each surveyed a different population. NBES results are based on responses from 6,420 workers in U.S. businesses (responses from workers in government and the not-for-profit sectors were excluded). On the other hand, the GECS included 5,128 respondents from more than 95 countries, with only 115 responses from the U.S. The U.S. responses also indicated that their perspective was a global footprint and much of their concern for fraud is directed to their operations in "at-risk" countries rather than in domestic operations.

While the NBES report showed some favorable trends and developments, the level of unethical actions is still disturbing. That and the results from the GECS report demonstrate the continued need for companies to place greater emphasis on developing, maintaining, and enforcing a strong ethical culture. According to a study from the IBM Institute for Business Value, fraud is estimated to cost companies around the world a total of $3.5 trillion each year. It's time to start reducing that total. **SF**

Curtis C. Verschoor is the Emeritus Ledger & Quill Research Professor, School of Accountancy and MIS, and an honorary Senior Wicklander Research Fellow in the Institute for Business and Professional Ethics, both at DePaul University, Chicago. He is also a Research Scholar in the Center for Business Ethics at Bentley University, Waltham, Mass. He was selected by Trust Across America-Trust Around the World as one of the Top Thought Leaders in Trustworthy Business–2014. John Wiley & Sons has published his latest book, Audit Committee Essentials. *His e-mail address is curtisverschoor@sbcglobal.net.*