

# 2011 NATIONAL BUSINESS ETHICS SURVEY®

## *Workplace Ethics in Transition*



*Seventh in a longitudinal study of U.S. workplace ethics.*

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The Ethics Resource Center (ERC) is America's oldest nonprofit organization devoted to independent research and the advancement of high ethical standards and practices in public and private institutions. Since 1922, ERC has been a resource for public and private institutions committed to a strong ethical culture. ERC's expertise informs the public dialogue on ethics and ethical behavior. ERC researchers analyze current and emerging issues and produce new ideas and benchmarks that matter — for the public trust.

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The 2011 NBES is the seventh in a series of reports that began in 1994, an ongoing research initiative of the Ethics Resource Center. All work in this effort is funded by charitable contributions. Additional donations from individuals, companies, and other organizations will enable ERC to expand its research and conduct further analysis on the data.

For more information about how to support the NBES or other ERC research projects, please visit [www.ethics.org](http://www.ethics.org).

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## Foreword

The National Business Ethics Survey® (NBES) is one of the most important projects that the Ethics Resource Center (ERC) undertakes, and we are pleased to present the findings of the latest update to our longitudinal research.

This year, the results have surprised us in every possible way. Now in our 17<sup>th</sup> year of study, we have come to expect certain patterns in employees' perceptions, and pairings of metrics that rise and fall together. But this year, all bets are off – not a single metric has held to previous patterns.

This is a year of extremes and substantive shifts. The ERC research team has spent many hours poring over the data, ruling out the possibility of biases or other abnormalities that might result in such stunning findings. We have looked for individual factors that are influencing change, but in the end, only one explanation emerged – ethics in corporate America are in transition.

Suffice it to say that this is both an interesting and important time for business. In the pages that follow we report some very good news, but also some very troubling news. On the one hand, misconduct has reached an historic low and observers of wrongdoing are more willing to report than ever. But with this good news we also see some very ominous signs – ethics cultures are eroding and employees' perceptions of their leaders' ethics are slipping. Additionally, pressure from employers to compromise standards is at an all-time high and retaliation has reached an alarming rate.

Interestingly, two pervasive external factors seem to have played a role in the extreme nature of the findings this year. The economy and technology (specifically social networking) are not only changing the way we behave outside the workplace, they seem to be influencing the way we conduct ourselves at work.

We have gone to great lengths to sound the alarm in the 2011 NBES report – while there are findings to celebrate, we see evidence that trouble lies ahead. Based on what we see now, we



# Foreword

expect workplace ethics to decline. The extent to which that will happen is largely dependent on how business leaders respond to this report.

The data make a very clear case that if business leaders will take heed of these findings and make ethics a business priority, they can have a dramatic impact on the conduct of their workforce. Risks noted in this report can be mitigated. Executives seeking “the business case” for ethics and compliance programs will find it in the pages that follow.

One of the great benefits of the NBES dataset is that it is rich with metrics that help us to understand the drivers of good conduct in business. In the coming months, ERC will release a series of supplemental research reports to address several specific topics in greater detail.

All of this work is made possible by the generosity of the organizations that see the value of these findings and invest in our research. As we continue to mine the data and share new insights, we welcome your contributions, both in terms of financial support, and also in terms of feedback. NBES is not only a research study, it is a catalyst for discussion. We look forward to your thoughts on this 2011 report.



Michael G. Oxley  
*Chairman, ERC Board of Directors*



Patricia J. Harned, Ph.D.  
*ERC President*

# Methodology



Since 1994, the Ethics Resource Center has fielded the National Business Ethics Survey® (NBES), a nationally representative survey of employees at all levels, to understand how they view ethics and compliance at work. This 2011 report is the seventh in the series.

NBES is the most exacting longitudinal research effort examining trends in business ethics from the employee perspective. The long-term nature of the study is important because it provides context for national trends. NBES is the only longitudinal study that tracks the views of employees at all levels within companies to reveal real-life views of what is happening within businesses and the ethics risks they face.

Over the years, ERC has polled and reported findings on more than 21,000 employees through this research. In 2011, 4,800 responses were collected. Review of the data revealed that 117 respondents worked in the government sector. These cases were removed from all analysis, meaning that 4,683 responses were from employees in the for-profit sector.

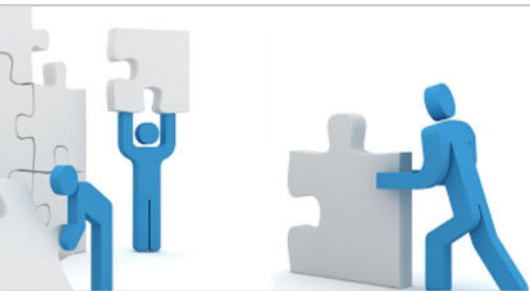
Participants in the 2011 NBES were 18 years of age or older; currently employed at least 20 hours per week for their primary employer; and working for a company that employs at least two people. They were randomly selected to attain a representative national distribution. One-third of all participants were interviewed by telephone (over a land line (75 percent of phone sample) or cellular phone (25 percent of phone sample)), and two-thirds participated through an online survey (using online panels and communities). The proportions of the telephone and online groups in the sample were weighted to be equal<sup>1</sup>. All participants were assured that their individual responses to survey questions would be confidential.

The survey opened September 15, 2011 and closed September 29, 2011.

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1. The equal weighting was chosen to be done as part of the transition from a landline telephone only survey to a mixed telephone/online survey. Survey results from the two groups tended to differ and this equalized the influence of each group.





# Methodology

Survey questions and sampling methodology were established by ERC; data collection was managed by Survey Sampling International (SSI). Analysis by ERC 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, risk, and outcomes.

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. Results for 2011 and years prior to 2009 are reported according to all three weighting factors. In 2009, information about education was not available and survey data were weighted by age and gender only.

For a detailed explanation of methodology and the methodological limitations of this report and demographic information on survey participants, visit [www.ethics.org](http://www.ethics.org).

# About the National Business Ethics Survey (NBES)

The National Business Ethics Survey (NBES) generates the U.S. benchmark on ethical behavior in corporations. Findings represent the views of the American workforce in the private sector.

Since 1994, the NBES and its supplemental reports have provided business leaders a snapshot of trends in workplace ethics and an identification of the drivers that improve ethical workforce behavior. With every report, ERC researchers identify the strategies that business leaders can adopt to strengthen ethical cultures of their businesses.

To view past issues of the NBES, please visit our website at [www.ethics.org/nbes](http://www.ethics.org/nbes).

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# 1 : EXECUTIVE SUMMARY: WHAT WE FOUND

Two years after the Ethics Resource Center (ERC) showed a rebound in ethical workplace behavior, the 2011 National Business Ethics Survey® (NBES) shows a bifurcated picture and a pattern unlike any other year. **On the positive side, the data reveal historically low levels of current misconduct in the American workplace and record high levels of employee reporting.**

- **The percentage of employees who witnessed misconduct at work fell to a new low of 45 percent.** That compares to 49 percent in 2009 and is well down from the record high of 55 percent in 2007.
- **Those who reported the bad behavior they saw reached a record high of 65 percent,** up from 63 percent two years earlier and 12 percentage points higher than the record low of 53 percent in 2005.

But clouding this good news are **ominous warning signs of a potentially significant ethics decline** ahead. And, the negative indicators predominate:

- **Retaliation against employee whistleblowers rose sharply.** More than one in five employees (22 percent) who reported misconduct say they experienced some form of retaliation in return. That compares to 12 percent who experienced retaliation in 2007 and 15 percent in 2009.
- **The percentage of employees who perceived pressure to compromise standards in order to do their jobs climbed five points to 13 percent,** just shy of the all-time high of 14 percent in 2000.
- **The share of companies with weak ethics cultures also climbed to near record levels at 42 percent,** up from 35 percent two years ago.

The co-existence of widespread retaliation and pressure with historically low misconduct and high reporting is unlike any previous pattern. **Two influences stood out in the unusual shift in trends: the economy and the unique experiences of those actively using social networking at work.**

For many Americans, the economy in 2011 seems only slightly better than during the recession. Growth is sluggish, the unemployment rate remains stubbornly high, and fear of a second recession fosters continued anxiety. **NBES continues to show that**

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Note: Numbers in report are rounded. As a result, some numbers might not correspond exactly to one another.

**companies behave differently during economic difficulties.** The decisions and behaviors of their leaders are perceived by employees as a heightened commitment to ethics. As a result, employees adopt a higher standard of conduct for themselves.

- About one-third (34 percent) of employees say management now watches them more closely.
- More than four in 10 employees (42 percent) say their company has increased efforts to raise awareness about ethics.
- Thirty percent of employees agree that bad actors in their company are laying low because of fears about the recession.

Post-recession conduct among employees is remarkably similar to their behavior during the recession. This phenomenon is a significant factor in the historically low rates of misconduct and high rates of reporting. That matches historical data, which show that ethical conduct improves when the economy cools.

**As the economy gets better – and companies and employees become more optimistic about their financial futures – it seems likely that misconduct will rise and reporting will drop, mirroring the growth in pressure and retaliation that have already taken place and conforming to historic patterns.**

The other key element driving the 2011 NBES results is the rise in influence of active social networkers. A surprising and worrisome divide exists within the workplace between employees who spend substantial time on social networks and those who do not. **Active social networkers report far more negative experiences in their workplaces. As a group, they are much more likely to experience pressure to compromise ethics standards and to experience retaliation for reporting misconduct than co-workers who are less involved with social networking.**

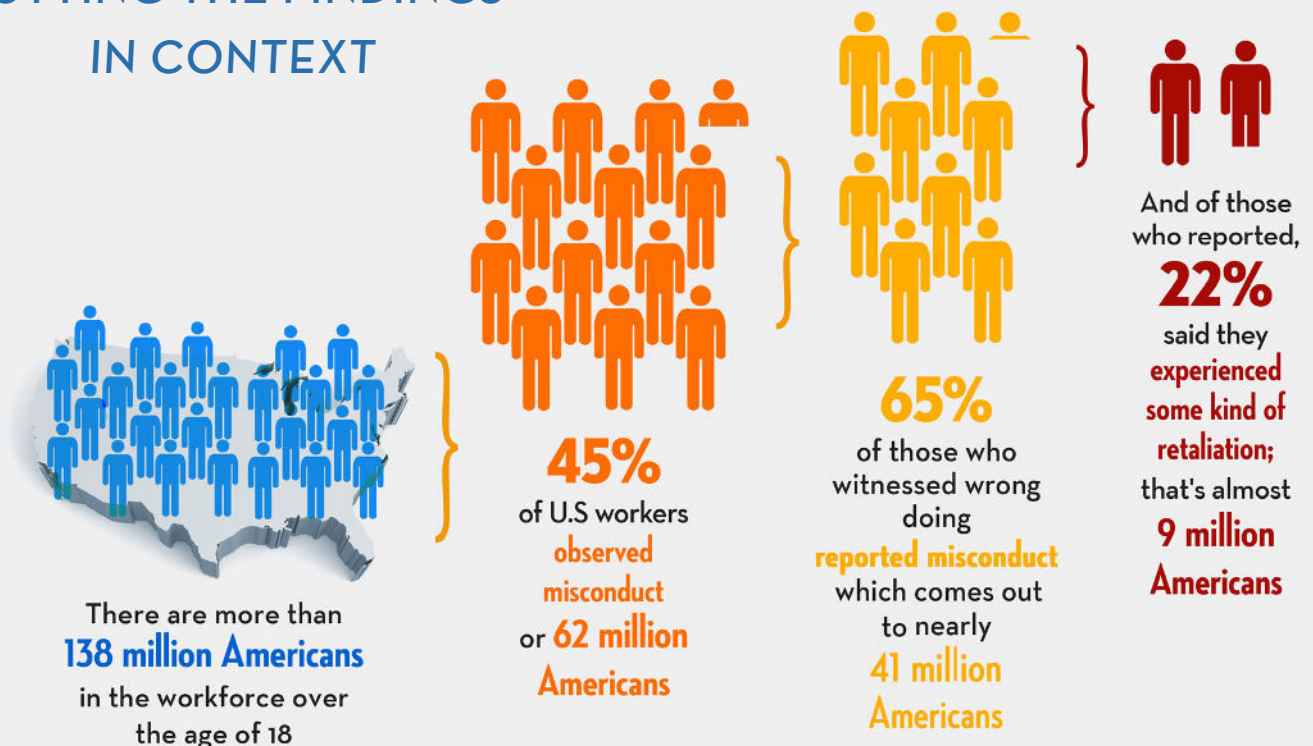
- By 32 percentage points, active social networkers are much more likely to feel pressure than less active networkers and non-networkers.
- Most of the active networkers who reported misconduct say they experienced retaliation as a result: 56 percent compared to just 18 percent of less active social networkers and non-networkers.

Active social networkers show a higher tolerance for certain activities that could be considered questionable. For example, among active social networkers, half feel it is acceptable to keep copies of confidential work documents in case they need them in their next job, compared to only 15 percent of their colleagues.

Certainly 2011 was a unique year. The NBES findings, which are unlike any the ERC has seen in its prior surveys, indicate something is driving a shift in the American workplace. American employees are doing the right thing more than ever before, but in other ways employees' experiences are worse than in the past.

In ERC's expanded review of the NBES findings that follows, readers could take one of two views. They might conclude this year's survey results mark the beginning of a sea change in the way the American office conducts itself. Alternatively, they may regard the results as a snapshot of a workforce knocked off its historic trend lines for a period, and now in the process of returning to the patterns seen in past studies. The ERC believes it is more likely the latter – a snapshot that captures a downturn on the horizon in ethical behavior.

## PUTTING THE FINDINGS IN CONTEXT





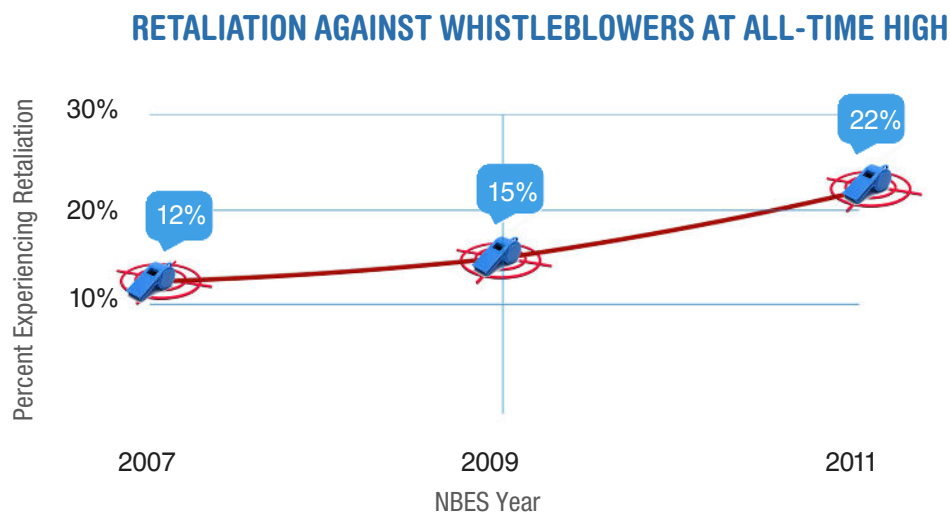
## 2: SIGNS POINT TO ETHICS DOWNTURN

Historically, when the economy is good, workplace ethics tend to suffer: profit takes precedence over proper behavior. While the economy has improved since the 2009 NBES, the recovery has been uneven. Many Americans have seen encouraging signs of recovery at their workplaces, but they have not necessarily felt that improvement personally. That uneven quality is reflected in the 2011 NBES results.

Of ERC's four key ethics outcomes (which historically either improve or decline in concert), the two that tend to be leading indicators – *pressure and retaliation* – have spiked since the 2009 survey and have increased at an alarming rate. These trends heighten business risk by increasing ethical misconduct and discouraging reporting, thereby depriving organizations of the chance to identify and fix potential problems before they become significant.

### Increased Retaliation Against Whistleblowers

Among employees who reported workplace misconduct, more than one in five (22 percent) say they experienced some form of retaliation in return. That compares to 12 percent who reported retaliation in 2007 and 15 percent who said retaliation was a problem in 2009. When all employees were asked whether they could question management without fear of retaliation, 19 percent said it was not safe to do so.



### SHIFT IN KEY MEASURES (2009-2011)



Heading the list of retaliatory actions are: exclusion from decision-making or other workplace activities, a cold shoulder from co-workers, and verbal abuse from a supervisor or other manager.

### RETALIATION MORE WIDESPREAD IN 2011

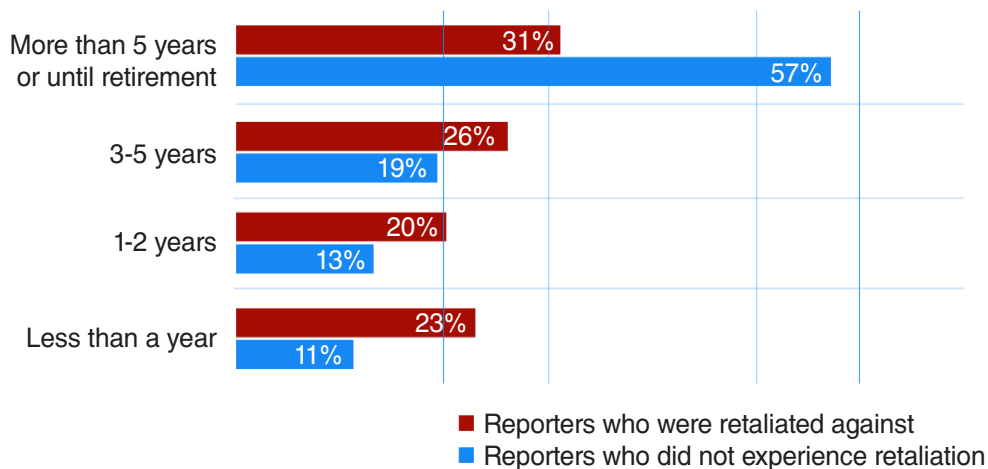
| TYPE OF RETALIATION   | 2009 | 2011 |
|---|------|------|
| Excluded from decisions and work activity by supervisor or management | 62%  | 64%  |
| Given a cold shoulder by other employees                              | 60%  | 62%  |
| Verbal abuse by supervisor or someone else in management              | 55%  | 62%  |
| Almost lost job   | 48%  | 56%  |
| Not given promotions or raises  | 43%  | 55%  |
| Verbal abuse by other employees                                       | 42%  | 51%  |
| Hours or pay were cut   | ***  | 46%  |
| Relocated or reassigned   | 27%  | 44%  |
| Demoted   | 18%  | 32%  |
| Experienced online harassment   | ***  | 31%  |
| Experienced physical harm to your person or property                  | 4%   | 31%  |
| Harassed at home  | ***  | 29%  |

\*\*\* Not asked in 2009

Retaliation contributes to workplace instability, driving talented people to look for other jobs and depriving businesses of key skills and talented people. About seven of 10 employees who experienced retaliation plan to leave their current place of employment within five years, compared to about four in 10 of employees who were not victims of retaliation.

## EMPLOYEES WHO EXPERIENCE RETALIATION LESS LIKELY TO STAY AT COMPANY

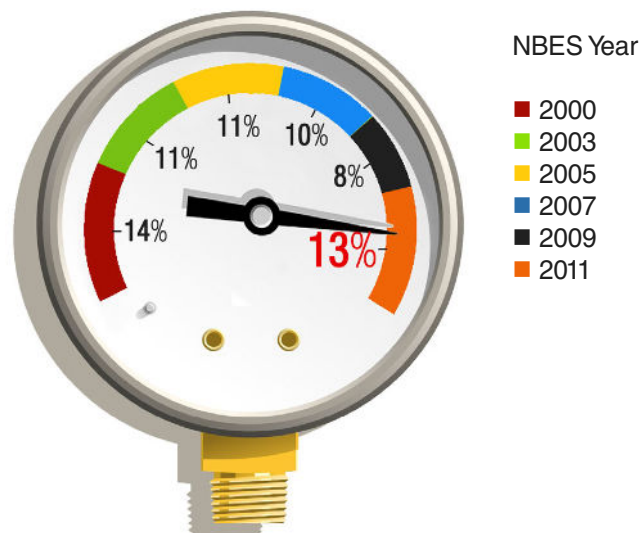
### INTENT TO STAY



### Growing Pressure to Break the Rules

U.S. employees reported an increase in pressure to compromise their company's ethics standards or policies, or even break the law. Thirteen percent of employees said they felt pressure to break the rules. That is the highest level since 2000 – just before a wave of corporate scandals triggered a new emphasis on corporate ethics.

#### PRESSURE APPROACHING HIGHEST LEVELS<sup>1</sup>



Percentage of employees feeling pressure to compromise standards

NBES results showed again this year where there's smoke, there's fire. More than nine of 10 (93 percent) of those who perceived pressure also witnessed misconduct where they work.

1. In past NBES reports, data from 1994 were shown with a footnote that differences existed because of the wording of the answer choices in 1994 questionnaire. In 2011, the 1994 data point was omitted to improve the accuracy of the trend analysis.

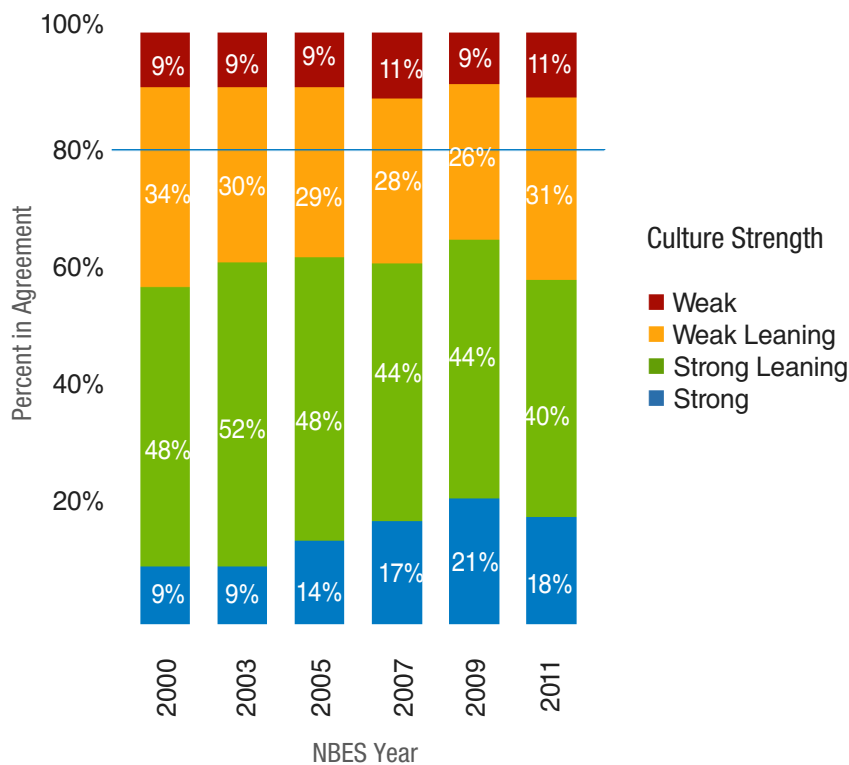
## Ethics Cultures: As Weak as Ever

Culture is another way of referring to “the way things are done around here.” In business, culture encompasses everything from how employees dress to their approaches with customers and interactions with the boss.

Ethics is a component of culture. The NBES measured critical aspects of ethics culture, including: management’s trustworthiness, whether managers at all levels talk about ethics and model appropriate behavior, the extent to which employees value and support ethical conduct, accountability, and transparency.

The percentage of employees who say their business has a weak ethics culture increased to 42 percent in 2011, a seven percentage point surge and the highest level since 2000.

### STRENGTH OF ETHICS CULTURES DECLINED DRAMATICALLY IN 2011

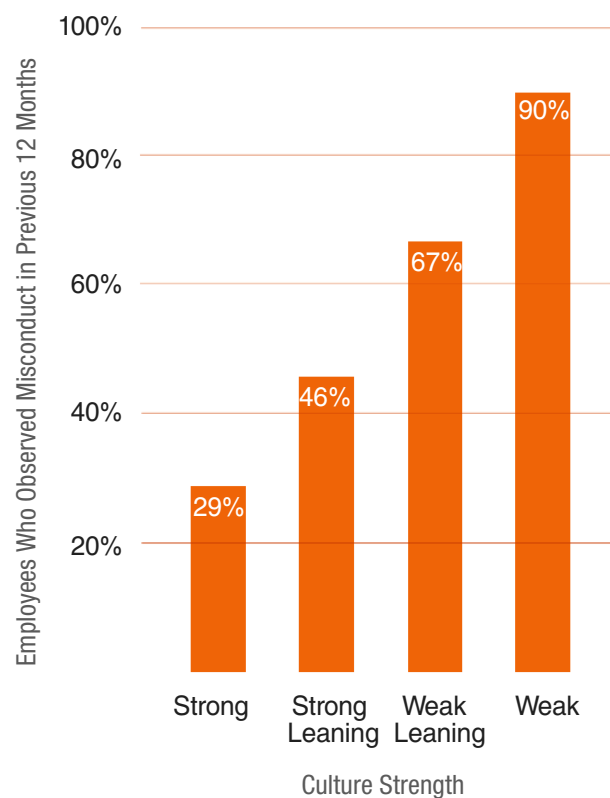


## ERC CULTURE METRICS

- Ethical leadership – tone at the top
- Supervisor reinforcement of ethical behavior
- Peer commitment – supporting one another in doing right

Looking back, it is clear that the 2000 data were warning signs of conditions for a possible dip in ethics. The general accuracy was borne out by a wave of major corporate scandals that wiped out whole companies and cost thousands of employees their jobs. Given this history, there is reason to be concerned that the current weakness of ethics cultures could foreshadow a new surge in misconduct.

### WHERE CULTURES ARE WEAKER, MISCONDUCT IS MORE PREVALANT



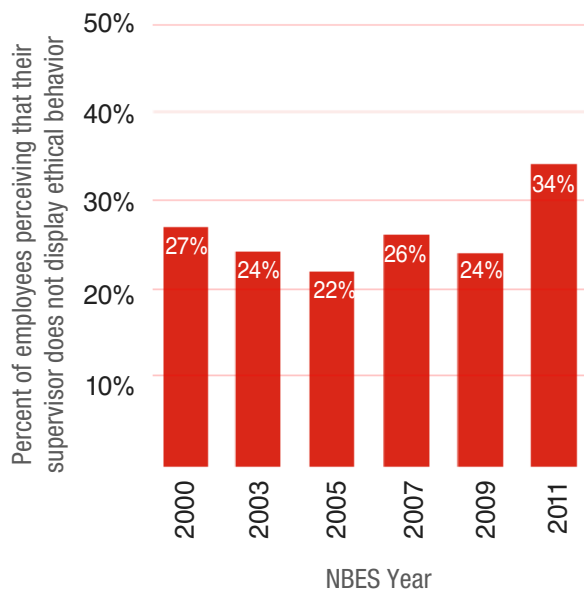


## Employees Losing Confidence in Top Managers and Supervisors

Historically, NBES results have shown that the two major drivers of ethics culture are senior executives and supervisors. Employees' perceptions of both have declined in 2011.

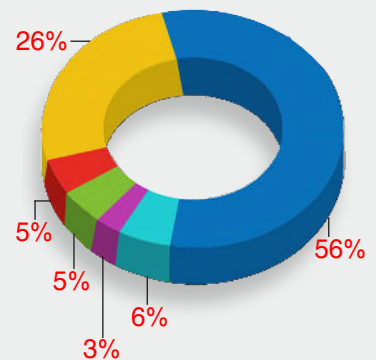
Confidence in senior leadership fell to 62 percent in 2011, matching the historic low observed in 2000 and down six percentage points from 2009. Far fewer employees believe their direct supervisors act as ethical leaders: one-third of employees (34 percent) say their managers do not display ethical behavior, up from 24 percent in 2009 and the highest percentage ever.

### MORE EMPLOYEES HAVE NEGATIVE VIEW OF SUPERVISORS' ETHICS



Given the important role that senior leaders and supervisors play, these downturns are disconcerting. They suggest that a decline in workplace ethics is looming – and may already be under way. With employees more likely to look to supervisors when they report misconduct (see sidebar), this is a troubling downturn.

## SUPERVISORS MOST LIKELY TO RECEIVE REPORTS OF MISCONDUCT



Percentage of Reports Received By:

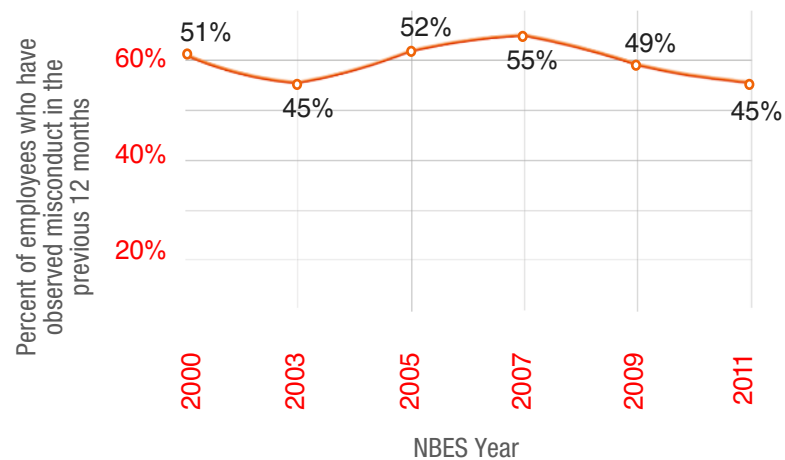
- Supervisor
- Higher Management
- Hotline
- Other Responsible Person
- Someone Outside the Company
- Other

In another sign of weakening cultures, employees have become less confident in their own ability to handle ethics situations. The percentage of employees who say they are prepared to handle situations that could lead to a violation of company policies fell from 86 percent in 2009 to 77 percent in 2011.

### For Now, Employees Are Still Doing the Right Thing

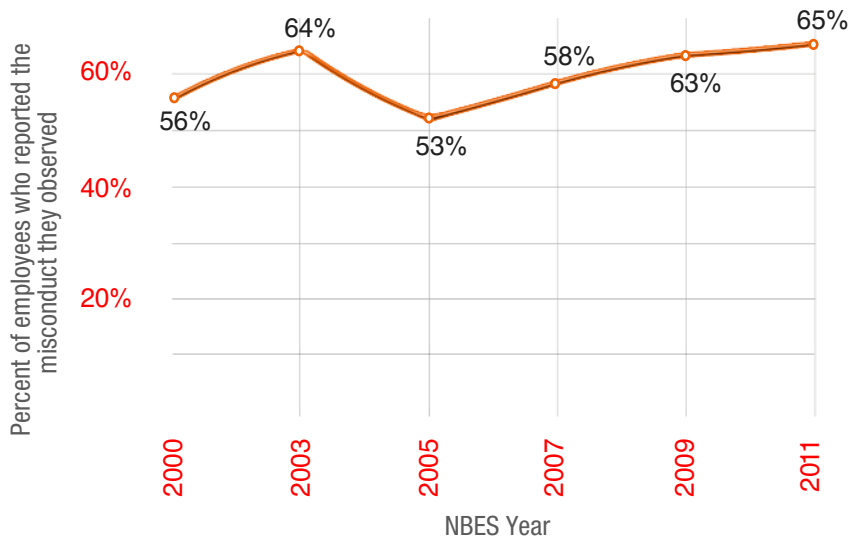
Despite warning signs of possible ethics troubles ahead, employees' conduct continued the positive trend that began in the latter part of the last decade. The percentage of employees who observed misconduct in the workplace in 2011 fell to an historic low of 45 percent.

### RATE OF OBSERVED MISCONDUCT FALLS TO HISTORIC LOW



Also the percentage of those who reported the bad behaviors they witnessed edged up to a record high of 65 percent. Reporting levels have risen for the third straight NBES and are up 12 percentage points from 2005 - an indication that the growth in corporate ethics and compliance programs is changing behavior for the better. In fact, in companies with strong ethics programs, more than four out of five employees (83 percent) who observed misconduct later reported it.

### RECORD NUMBER OF EMPLOYEES CHOOSING TO REPORT OBSERVED MISCONDUCT



### Some Types of Misconduct Are Increasing

While the aggregate numbers on employee conduct remain strong, there are some important exceptions to the good news. When broken down by category, 11 of 25 specific types of misconduct rose between 2009 and 2011. For example, environmental violations increased from four percent to seven percent and contract violations increased from three to six percent.

Although the overall incidence remained relatively low, there was a substantial percentage increase in employees observing certain significant law breaking behavior. Insider trading climbed from one percent to four percent and employees who observed some form of sexual harassment climbed four percentage points to 11 percent.

### DRAMATIC INCREASES IN MISCONDUCT POSING RISK

| TYPE OF MISCONDUCT                       | 2009 | 2011 | INCREASE |
|--|------|------|----------|
| Sexual harassment                        | 7%   | 11%  | 4ppts    |
| Substance abuse                          | 7%   | 11%  | 4ppts    |
| Insider trading                          | 1%   | 4%   | 3ppts    |
| Illegal political contributions          | 1%   | 4%   | 3ppts    |
| Stealing                                 | 9%   | 12%  | 3ppts    |
| Environmental violations                 | 4%   | 7%   | 3ppts    |
| Improper contracts                       | 3%   | 6%   | 3ppts    |
| Contract violations                      | 3%   | 6%   | 3ppts    |
| Improper use of competitor's information | 2%   | 5%   | 3ppts    |
| Health or safety violations              | 11%  | 13%  | 2ppts    |
| Anti-competitive practices               | 2%   | 4%   | 2ppts    |

For the full list of observed misconduct, please see page 39.

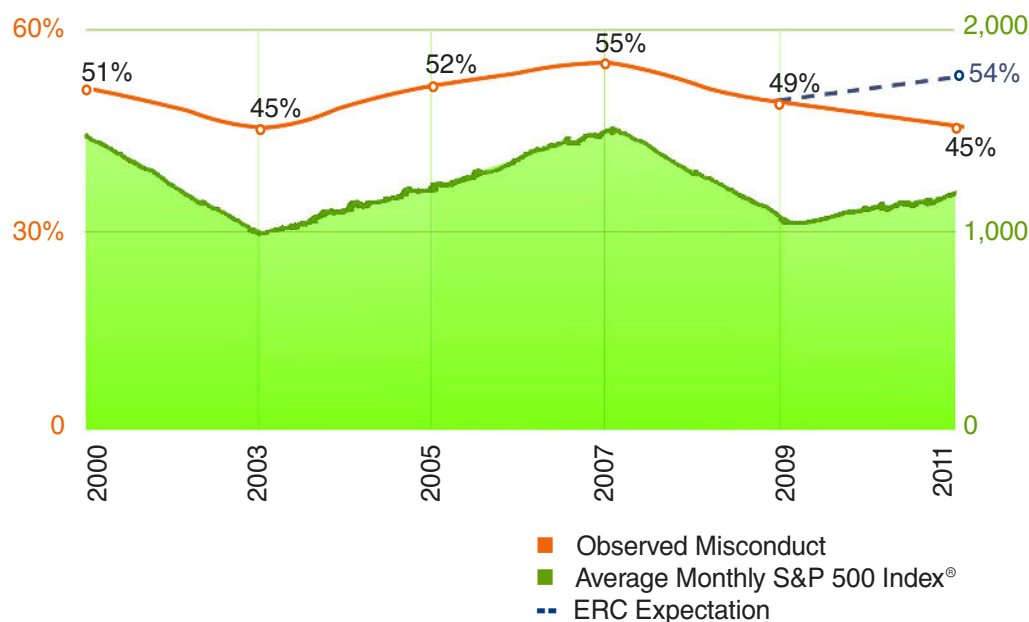
### 3: TRENDS INFLUENCED BY THE RECESSION AND SOCIAL NETWORKERS

The co-existence of widespread retaliation and pressure with historically low misconduct and high reporting is unlike any previous NBES result. These trends seem to be highly influenced by two factors: the lingering effects of the recent recession and the experiences of an emerging group of individuals who spend a significant amount of work time engaged in social networking.

#### Economic Anxiety Encourages Good Conduct

It is perhaps ironic, but ethics indicators turn upwards and workplace conduct improves when the economy declines. This trend was evident in the surveys performed during the economic downturns in 2003 and 2009. Conversely, ethical behavior slides during periods of strong economic growth. As the trend lines in the following graphic indicate, workplace misconduct has historically followed a similar trajectory to stock market performance. However, similar to today's climate, the trend lines have diverged - indicating just how unusual this year's results are.

#### NO LONGER IN LOCKSTEP: S&P 500 INDEX® COMPARED TO AMERICANS OBSERVING MISCONDUCT



For most Americans, the economy in 2011 seems only slightly better than during the recession. Growth is sluggish, the unemployment rate remains stubbornly high, and fear of a second recession fosters continued unease. Even though stock market indices are trending up, many employees feel even less secure now than they did two years ago. They are more careful to avoid misconduct, altering the typical relationship between ethical conduct and the stock market fluctuations.

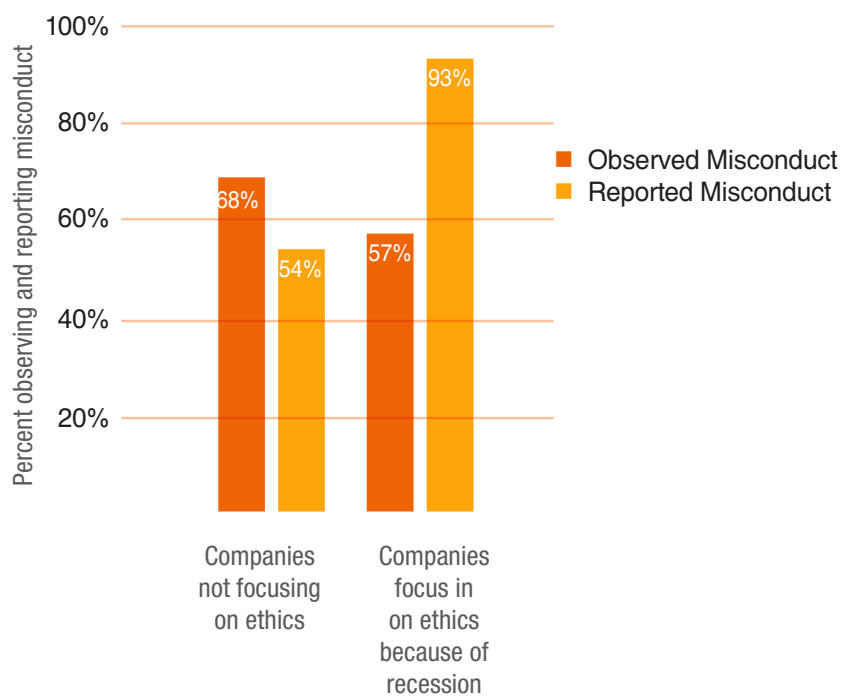
Other findings indicate these post-recession sentiments of employees including:

- Fewer employees feel optimistic about their company's financial future. Seventy-one percent voiced confidence in 2011, down from 77 percent two years before.
- More than half (53 percent) say there is less room for mistakes in their company because of the recession.
- Businesses are taking fewer risks (44 percent say risk-taking is down).
- About one-third (34 percent) of employees say management today watches them more closely.
- There is more talk about integrity and following the rules, according to 40 percent of employees.
- More than four in 10 employees (42 percent) say their company has increased efforts to raise awareness about ethics.
- Thirty percent of employees agree that bad actors in their company are laying low because of the recession.



The 2011 NBES data show links between the lingering recession mentality of many companies, the drop in misconduct, and the rise in reporting of misbehavior. Instances of misconduct are lower and reporting is higher in companies that respond to economic uncertainty by stepping up their focus on ethics.


### FOCUS ON ETHICS DURING RECESSION DRIVES DOWN MISCONDUCT, INCREASES REPORTING



### Traditional Pattern Likely to Re-emerge as Recovery Occurs

Despite the continuing concern, the data indicate that many companies are doing better today than two years ago. More than three quarters of employees (78 percent) say their company has taken at least one economic “recovery measure,” such as new hiring or restoring salaries. And, in six of seven categories, employees report fewer belt-tightening activities in 2011 than 2009.

#### BELT-TIGHTENING TACTICS DECLINE FROM 2009 TO 2011



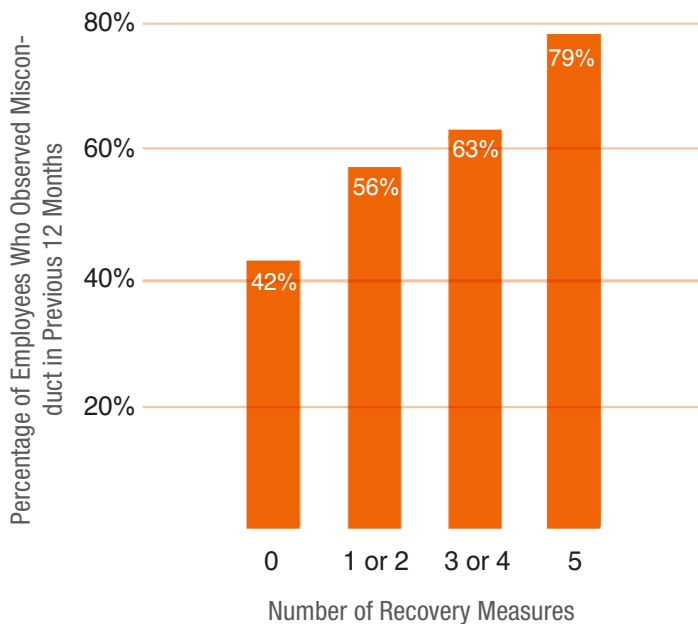
| Tactic                                 | 2009 | 2011 |
|--|------|------|
| Hiring freezes                         | 52%  | 34%  |
| Furlough or reduced hours              | 42%  | 29%  |
| Layoffs                                | 42%  | 31%  |
| Compensation and/or benefits reduction | 34%  | 28%  |
| Production slowdowns                   | 36%  | 30%  |
| Early retirement or buyouts            | 20%  | 17%  |
| Plant closures                         | 12%  | 13%  |

History teaches a bittersweet lesson that goes with the good omens: when economic recovery takes place, some companies lose their focus on ethics, some employees will return to risky behavior, and misconduct is likely to rise. Indeed, the rise in retaliation, increased pressure to break rules, and the decline in ethics cultures suggests that – at least at the corporate level – some slippage has occurred already. The stage is set for a larger jump in misconduct once a strong economy reduces companies’ ethics focus and eases employees’ worry about job security.

NBES data show that misconduct is already rising at companies where renewed growth is underway and recovery measures are taking place. In companies that have

taken even one recovery measure, observed misconduct is substantially higher than in businesses that have taken no recovery measures. At businesses that have taken all five recovery measures included in the survey, almost eight in 10 employees say they have seen misconduct – nearly double the rate in organizations that have taken no such measures.

### AS ECONOMIC STRESS ON COMPANIES EASES, MISCONDUCT BECOMES MORE PREVALENT<sup>2</sup>



2. Employees were asked if they observed several financial recovery tactics: Rehiring of former staff; Hiring new employees; Business expansion; Restoration of compensation and/or benefits that had been taken away; and Reinstatement of hours or overtime work that had been taken away.

## PROFILE OF ACTIVE SOCIAL NETWORKERS

Active social networkers spend at least 30 percent of their work day on social networking activities.

Approximately

# 11%

of employees who engage in social networking are “active.”

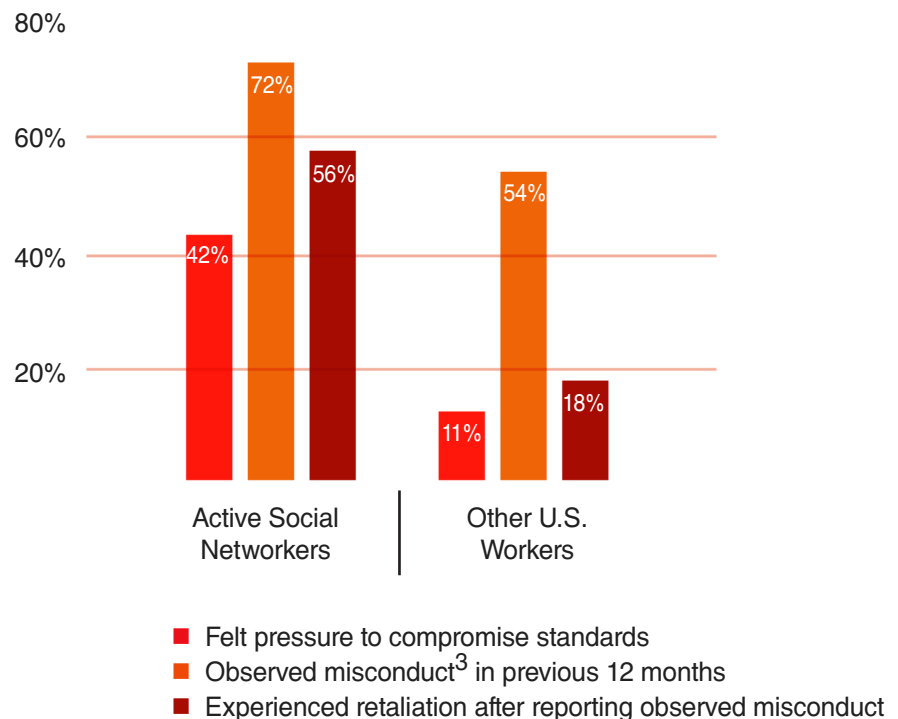
Active social networkers are:

- Predominantly male
- 18 to 44 years old
- Managers
- At the company 3-5 years

### Active Social Networkers Face Greater Workplace Ethics Challenges

For the first time in NBES history, the 2011 survey included questions about social networks and the people who actively use them. Among the most surprising findings from the survey is the distinctive experience of active social networkers, defined as employees who spend 30 percent or more of their work day participating on various social network sites. Their experience is so far outside the norms of their colleagues that it had an outsized impact on the overall NBES data.

#### WORKPLACE ETHICS LANDSCAPE MORE PERILOUS FOR ACTIVE SOCIAL NETWORKERS



Active social networkers report far more negative experiences of workplace ethics. As a group, they are almost four times more likely to experience pressure to compromise standards and about three times more likely to experience retaliation for reporting

3. Rate of misconduct is based on 33 types of misconduct asked about in 2011. The longitudinal comparison is based on 14 types of misconduct asked about since 2000.

misconduct than co-workers who are less active with social networking. They also are far more likely to observe misconduct. Interestingly, they report their observations at a rate similar to non-users and moderately active social networking colleagues. The reasons for the difference are not apparent at this time, although they may relate to differences in the nature of the work they perform or some personal characteristics of the two groups.

Meanwhile, active social networkers differ from co-workers in their more tolerant attitudes toward a number of questionable workplace behaviors. For example, half of active social networkers say it is okay to keep a copy of confidential work documents for possible use in future jobs, compared to 15 percent of non-active social networkers who believe such behavior acceptable. In addition, by a five-to-one margin, networkers differ from colleagues in saying it is acceptable to do a little less work to compensate for cuts in benefits or pay.

### ACTIVE SOCIAL NETWORKERS MORE LIKELY TO BELIEVE THAT QUESTIONABLE BEHAVIORS ARE ACCEPTABLE

| Do you feel it is acceptable to...?   | Active Social Networkers | Other U.S. Workers |
|---|--------------------------|--------------------|
| "Friend" a client/customer on a social network  | 59%                      | 28%                |
| Blog or tweet negatively about your company or colleagues                                       | 42%                      | 6%                 |
| Buy personal items with your company credit card as long as you pay it back                     | 42%                      | 8%                 |
| Do a little less work to compensate for cuts in benefits or pay                                 | 51%                      | 10%                |
| Keep a copy of confidential work documents in case you need them in your next job               | 50%                      | 15%                |
| Take a copy of work software home and use it on your personal computer                          | 46%                      | 7%                 |
| Upload vacation pictures to the company network or server so you can share them with co-workers | 50%                      | 17%                |
| Use social networking to find out what my company's competitors are doing                       | 54%                      | 30%                |

Active social networkers also appear less wedded to their current jobs. More than seven in 10 (72 percent) of active social networkers plan to change employers within the next five years, compared to just 39 percent of non-active social networking colleagues. This finding is not surprising given the high level of retaliation faced by active social networkers: whether they engage in social networking or not, employees who experience retaliation are far more likely to seek employment elsewhere than those who have not faced retaliation.

The relatively weak attachment of active social networkers to their current jobs could present additional ethics challenges for employers, given active social networkers' tolerance of certain marginal behaviors (e.g., keeping copies of confidential work documents for use in a future job, buying personal items with the company credit card, taking home company software).

Also, many active social networkers indicated a willingness to share less than flattering information about their workplace on their personal social networking sites. For example, 49 percent of active social networkers said they would be willing to recount a bad joke that their boss told at a meeting.

On the other hand, there may be an opportunity for corporations to work with active social networkers in ways that they have not yet fully explored. Active social networkers are somewhat more likely to use social networks to say positive things about their company and co-workers, rather than to post negative feelings. Fifty-six percent say they would post about the good things co-workers do, compared to 45 percent who say they would post about colleagues' annoying habits. Fifty-seven percent of the active users would post comments about good things their company does.



## 4: COMPANIES CAN REDUCE THEIR ETHICS RISKS

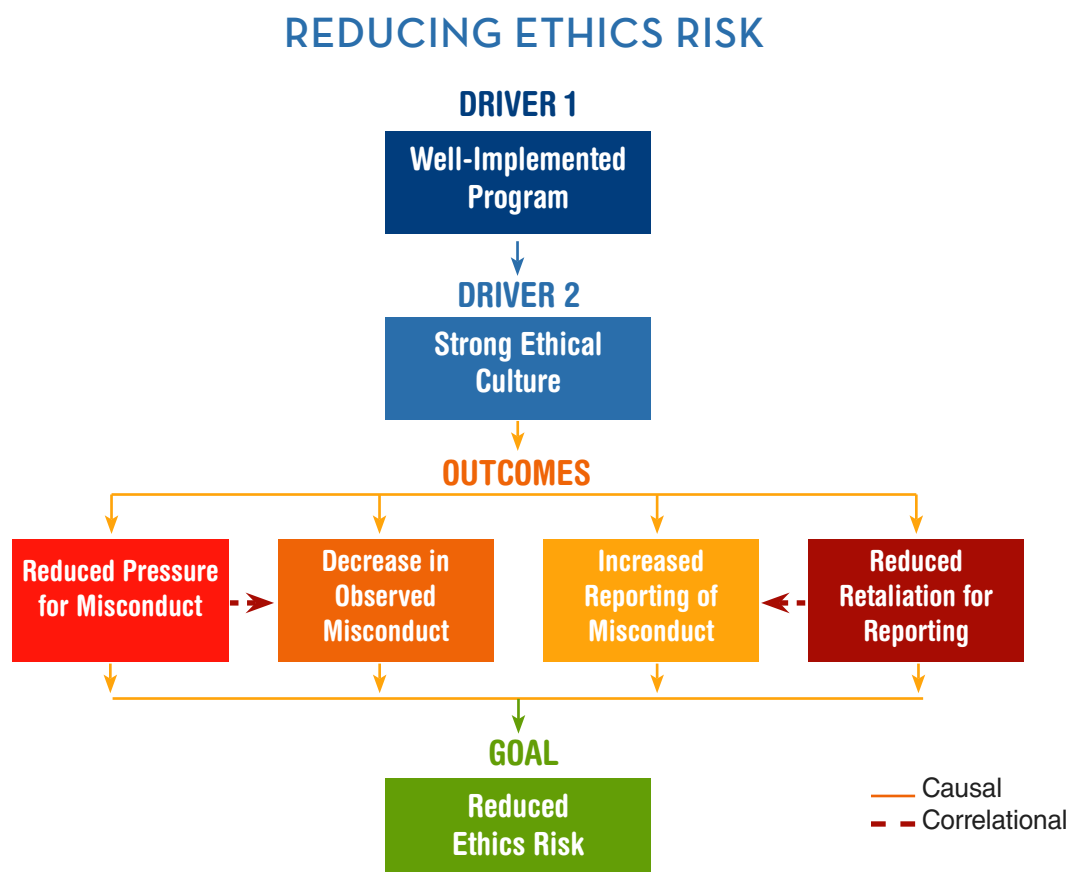
While warning signs of an impending ethics dip abound, the outcome is not pre-ordained. Enhanced vigilance, including increased investment in ethics and compliance programs, and renewed commitment to building ethics cultures can block the decline.

Data from the 2011 NBES and past ERC research provide a clear model for building an ethically healthy organization where: few employees feel pressure to compromise standards, misconduct is rare, observations of misbehavior are properly reported, and those who report do not experience retaliation. The prescription for ethics health is straightforward:

- Invest in building a strong ethics and compliance program; and
- Commit to ethical leadership and building an ethics-focused business culture.

The data show that a well-implemented program drives a strong ethics culture and that these work together to drive positive changes. Taken together, improvement in outcomes mean that organizations will have lower levels of misconduct and greater awareness of wrongdoing when it occurs. This is a reduction in ethics risk.

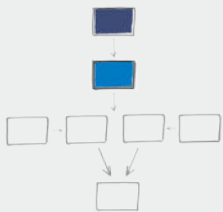
The following flow chart summarizes the impact of ethics/compliance programs and strong ethics cultures on employee conduct.



## WELL-IMPLEMENTED PROGRAM

- Organizations implement elements of an ethics program as defined by Federal Sentencing Guidelines for Organizations (see pp. 47 - 48)
- The program is actually used in daily activities (employees seek advice about ethics questions, are rewarded for ethical behavior, etc.)

Where it fits in the model



Drivers 1 - 2

### Making the Case, Step-by-Step

In the remainder of this section, NBES data are presented to support the flowchart that appears on page 33.

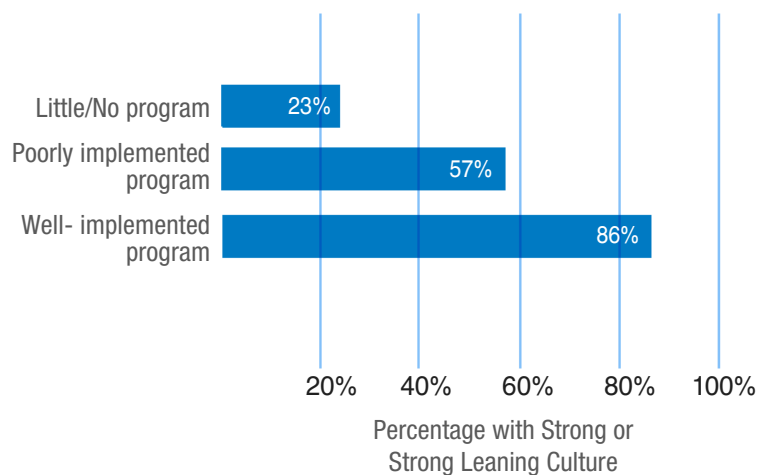
### Effective Ethics and Compliance Programs Promote Strong Ethics Cultures

The findings are clear: the reduction of ethics risk is the result of two primary drivers. The first driver is the presence of a well-implemented ethics and compliance program. The second driver is employees' perception that they work in a strong ethical culture.

The NBES data show that a well-implemented program leads to a strong ethical culture. The more employees perceive that their company has implanted a strong program, the more likely they are to perceive that they work in a strong ethical culture.

- Eighty-six percent of companies with a well-implemented ethics and compliance program also have a strong ethics culture.
- Fewer than 25 percent of companies with little to no program have a strong culture that promotes integrity in the workplace.

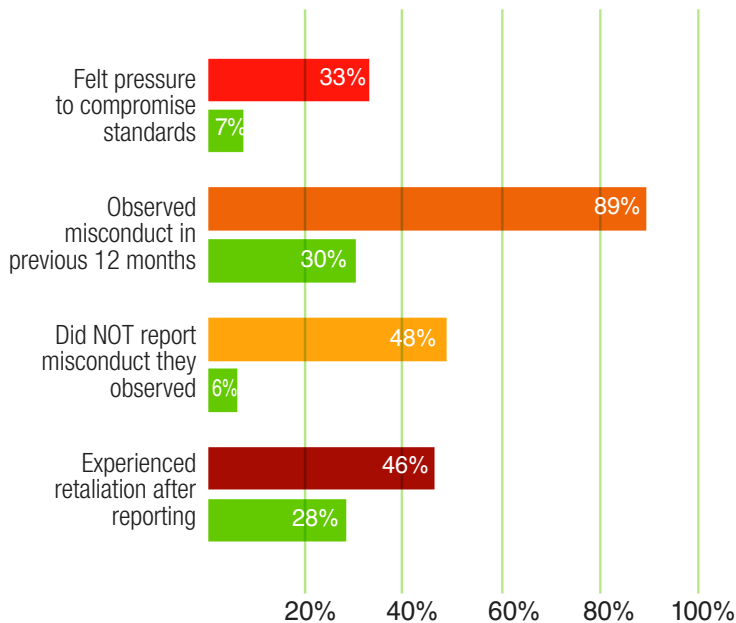
### EMPLOYEES IN COMPANIES WITH EFFECTIVE ETHICS PROGRAMS ARE MORE LIKELY TO PERCEIVE A STRONG ETHICAL CULTURE



## Programs and Culture Reduce Ethics Risk

By every measure, strong ethics programs and strong ethics cultures produce substantially better outcomes – less pressure, less misconduct, higher reporting, and less retaliation – than in weaker ethical environments.

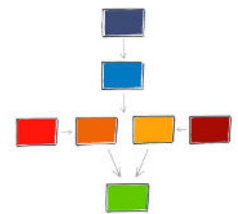
### WELL-IMPLEMENTED PROGRAMS AND STRONG CULTURES REDUCE ETHICS RISK



Ethics outcomes and strength of company program and culture

■ ■ ■ ■ Weakest Programs and Cultures  
■ Strongest Programs and Cultures

Where it fits in the model



Reduced Ethics Risk

## Other Key Relationships

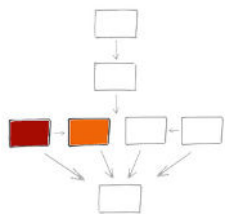
While well-implemented programs and strong ethics cultures are direct causes of reduced ethics risk, a few other important relationships stood out in the 2011 findings. Given the nature of the study a direct causal relationship cannot be determined, but it is clear that some key correlations exist. Specifically, pressure to compromise standards is linked to observed misconduct, and experiences of retaliation are linked to declines in employee willingness to report misconduct internally.

### Reduced Pressure Is Associated with Reduced Misconduct

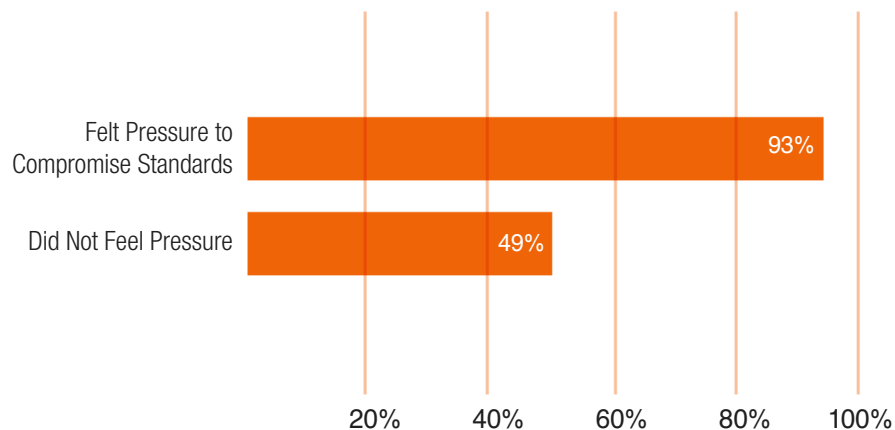
Not surprisingly, there is much less misconduct and much higher reporting when pressure on and retaliation against employees are low. On the other hand, it is rare not to see misconduct in companies where pressure on employees to compromise standards is high.

#### EMPLOYEES WHO DO NOT FEEL PRESSURE LESS LIKELY TO OBSERVE MISCONDUCT

Where it fits in the model



Correlation Between Pressure and Misconduct



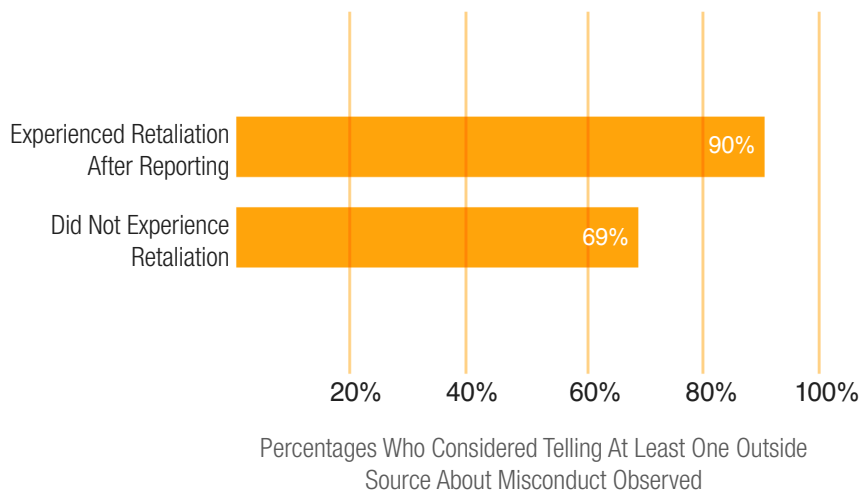
Percentage Who Observed Misconduct in Previous 12 Months

### Reduced Retaliation Is Associated with Greater Internal Reporting

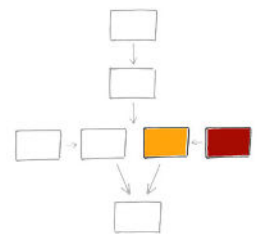
Business leaders are not only concerned that employees report misconduct when they observe it; they are also interested in making sure that employees bring their concerns to management so that violations can be handled by the company and prevented from occurring in the future.

The 2011 NBES revealed that experiences of retaliation are linked to employees' thought processes as to where they will report misconduct. Where employees did not experience retaliation, they were less likely to consider reporting misconduct to a source outside the organization.

#### VICTIMS OF RETALIATION FAR MORE LIKELY TO CONSIDER REPORTING OUTSIDE COMPANY



Where it fits in the model



Correlation Between Retaliation and Reporting

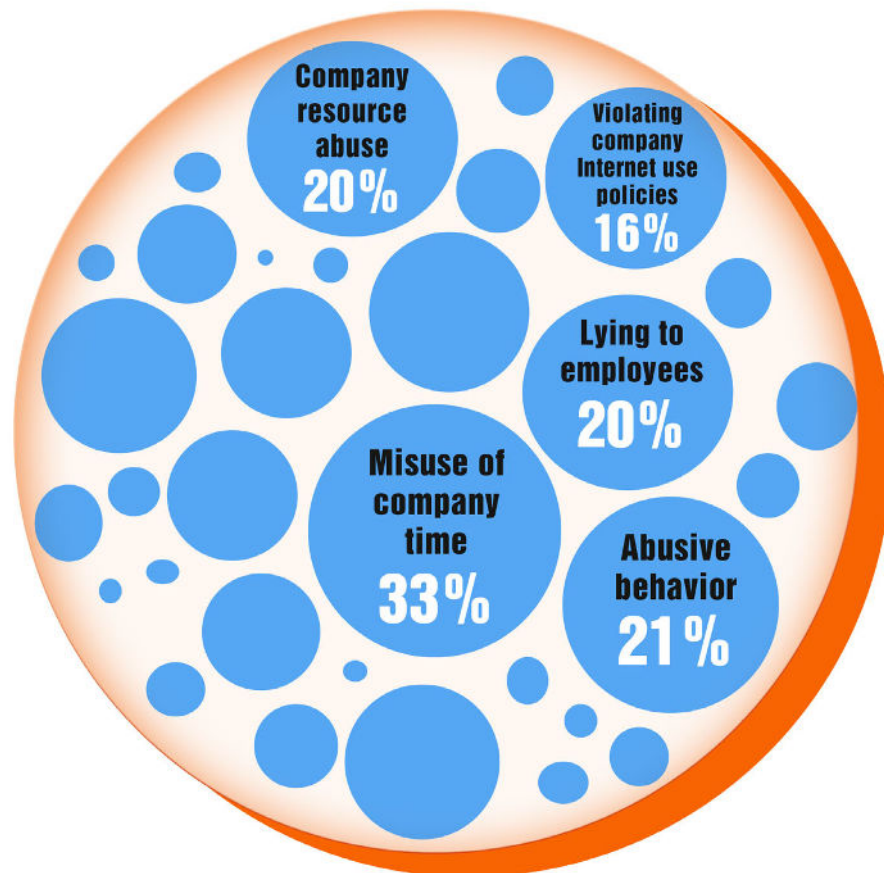
## 5: ADDITIONAL FINDINGS

The following charts augment the findings discussed in the first two sections. Additional analysis on specific topics (e.g. reporting, retaliation, generational differences) will be forthcoming through supplemental reports.

### Shifts in Leading Types of Misconduct Observed

While the overall incidence of observed misconduct fell sharply in 2011, the picture was mixed when examining specific types of bad behavior. Among notable increases, bribery and kickbacks were observed by nine percent of employees in 2011, up from five percent two years earlier.

#### TOP FIVE MOST FREQUENTLY OBSERVED TYPES OF MISCONDUCT IN 2011



Following is the full list of observed misconduct in 2011 and comparative figures from prior NBES reports:

### TYPES OF MISCONDUCT OBSERVED BY EMPLOYEES IN 2011

| BEHAVIORS  | 2000       | 2003       | 2005       | 2007       | 2009       | 2011       |
|--|------------|------------|------------|------------|------------|------------|
| <b>OBSERVED MISCONDUCT (OVERALL)<sup>4</sup></b> | <b>51%</b> | <b>45%</b> | <b>52%</b> | <b>55%</b> | <b>49%</b> | <b>45%</b> |
| Misuse of company time                           | n/a        | n/a        | n/a        | n/a        | n/a        | 33%        |
| Abusive behavior                                 | 24%        | 22%        | 20%        | 21%        | 22%        | 21%        |
| Lying to employees                               | n/a        | n/a        | n/a        | 20%        | 19%        | 20%        |
| Company resource abuse                           | n/a        | n/a        | n/a        | n/a        | 23%        | 20%        |
| Violating company Internet use policies          | n/a        | n/a        | n/a        | n/a        | n/a        | 16%        |
| Discrimination                                   | 16%        | 14%        | 12%        | 13%        | 14%        | 15%        |
| Conflicts of interest                            | n/a        | n/a        | 18%        | 23%        | 16%        | 15%        |
| Inappropriate social networking                  | n/a        | n/a        | n/a        | n/a        | n/a        | 14%        |
| Health or safety violations                      | n/a        | n/a        | 17%        | 15%        | 11%        | 13%        |
| Lying to outside stakeholders                    | n/a        | n/a        | n/a        | 15%        | 12%        | 12%        |
| Stealing   | 13%        | 13%        | 12%        | 11%        | 9%         | 12%        |
| Falsifying time reports or hours worked          | 20%        | 22%        | 16%        | 17%        | n/a        | 12%        |
| Employee benefits violations                     | n/a        | n/a        | n/a        | n/a        | 11%        | 12%        |
| Sexual harassment                                | 13%        | 14%        | 10%        | 10%        | 7%         | 11%        |

4. The longitudinal comparison is based on 14 types of misconduct asked about since 2000. The 14 types are identical or equivalent types. In some cases they are constructed from combined types; thus not all 14 are readily identifiable in the table.

## ADDITIONAL FINDINGS

| BEHAVIORS   | 2000 | 2003 | 2005 | 2007 | 2009 | 2011 |
|---|------|------|------|------|------|------|
| Employee privacy breach                                 | n/a  | n/a  | n/a  | n/a  | 10%  | 11%  |
| Substance abuse   | n/a  | n/a  | n/a  | n/a  | 7%   | 11%  |
| Poor product quality                                    | n/a  | n/a  | 10%  | 10%  | 9%   | 10%  |
| Improper hiring practices                               | n/a  | n/a  | n/a  | 10%  | 10%  | 10%  |
| Misuse of company's confidential information            | n/a  | n/a  | 6%   | 6%   | 6%   | 7%   |
| Environmental violations                                | 11%  | n/a  | n/a  | 7%   | 4%   | 7%   |
| Customer privacy breach                                 | n/a  | n/a  | n/a  | n/a  | 6%   | 7%   |
| Improper contracts                                      | n/a  | n/a  | n/a  | n/a  | 3%   | 6%   |
| Contract violations                                     | n/a  | n/a  | n/a  | n/a  | 3%   | 6%   |
| Accepting kickbacks or bribes                           | n/a  | n/a  | n/a  | n/a  | 4%   | 5%   |
| Offering potential clients bribes/<br>improper payments | n/a  | n/a  | n/a  | n/a  | n/a  | 5%   |
| Misuse of competitor's information                      | n/a  | n/a  | 5%   | 4%   | 2%   | 5%   |
| Misrepresenting financial records                       | n/a  | 6%   | 4%   | 5%   | 4%   | 5%   |
| Falsifying expense reports                              | n/a  | n/a  | n/a  | n/a  | n/a  | 5%   |
| Software piracy   | n/a  | n/a  | n/a  | n/a  | n/a  | 5%   |
| Offering public officials bribes/<br>improper payments  | n/a  | n/a  | n/a  | n/a  | n/a  | 4%   |
| Anti-competitive practices                              | n/a  | n/a  | n/a  | n/a  | 2%   | 4%   |
| Insider trading   | n/a  | n/a  | n/a  | n/a  | 1%   | 4%   |
| Illegal political contributions                         | n/a  | n/a  | n/a  | n/a  | 1%   | 4%   |



## Reporting Data Suggest Employees Believe Some Violations Are More Serious Than Others

Employees are more likely than ever before to report misconduct, but their willingness to report varies significantly depending on the nature of the violation. Almost seven of 10 who observed stealing or improper payment offers to public officials reported the violations, but only about one-third reported co-workers who conducted personal business on company time. Only 43 percent of employees reported violations of company Internet use policies and 49 percent reported inappropriate use of social networking.

| Reporting Rates for Specific Misconduct   | 2011 |
|---|------|
| Reported Stealing or theft  | 69%  |
| Reported Offering improper payments or bribes to public officials                 | 68%  |
| Reported Improper use of competitors' inside information                          | 66%  |
| Reported Falsifying expense reports   | 66%  |
| Reported Trading securities based on inside information                           | 65%  |
| Reported Making improper political contributions to officials                     | 65%  |
| Reported Delivery of goods or services that fail to meet specifications           | 63%  |
| Reported Abusive behavior or behavior that creates a hostile work environment     | 62%  |
| Reported Falsifying and/or manipulating financial reporting information           | 62%  |
| Reported Entering into contracts that lack proper terms, conditions, or approvals | 62%  |
| Reported Offering improper payments or bribes to potential/existing clients       | 61%  |
| Reported Violation of environmental regulations                                   | 61%  |
| Reported Falsifying time reports or hours worked                                  | 61%  |
| Reported Violations of health or safety regulations                               | 59%  |
| Reported Breaching customer or consumer privacy                                   | 59%  |
| Reported Abusing substances, such as drugs or alcohol, at work                    | 58%  |

## ADDITIONAL FINDINGS

| Reporting Rates for Specific Misconduct  | 2011 |
|--|------|
| Reported Violating contract terms with customers or suppliers  | 58%  |
| Reported Engaging in anti-competitive practices, e.g. market rigging   | 57%  |
| Reported Sexual harassment   | 55%  |
| Reported Behavior that places employee's interests over company's interests – a conflict of interest   | 55%  |
| Reported Misuse of your company's confidential information   | 54%  |
| Reported Violating employee wage, overtime, or benefit rules   | 54%  |
| Reported Accepting inappropriate gifts or kickbacks from suppliers or vendors  | 52%  |
| Reported Software piracy   | 52%  |
| Reported COMBINED inappropriate gifts, kickbacks from suppliers or vendors, improper payments, bribes to public officials, or improper payments to potential or existing clients | 51%  |
| Reported Discriminating against employees  | 50%  |
| Reported Breaching employee privacy  | 49%  |
| Reported Inappropriate use of social networking  | 49%  |
| Reported COMBINED lying to customers, vendors, or the public OR to employees   | 48%  |
| Reported Improper hiring practices.  | 47%  |
| Reported Lying to customers, vendors, or the public  | 47%  |
| Reported Lying to employees  | 47%  |
| Reported Wasting, mismanaging, or abusing the company's resources  | 47%  |
| Reported Violating company policies related to Internet use  | 43%  |
| Reported Conducting personal business/affairs on company time  | 34%  |

### Some Employees Unaware of Response to Reports

Employee satisfaction with company follow-up to misconduct reports was mixed. While 62 percent of those who knew an investigation of their report took place say the report was substantiated, only 47 percent believe the investigative process was fair. Almost four in 10 (39 percent) say that as far as they knew, their report was not investigated.

### Large Numbers Would Report Misconduct to Outsiders if the Crime Was “Big Enough”

The government’s establishment of financial reward programs for whistleblowers under the Dodd-Frank law suggested the need for research into the motivations of individuals who report misconduct to authorities outside of their company. Accordingly, the 2011 NBES included an investigation of whether potential bounties encouraged employees to go outside their company to report misconduct directly to law enforcement agencies. The data reveal that bounties are not the primary motivation.

Employees say they are far more motivated by the nature of the misconduct and its potential harm than by financial reward. Only three percent of employees who actually reported misconduct said they went outside the company as their first resort. About half (49 percent) said that they would consider reporting to federal authorities under certain circumstances – even if it might cost them their job. An additional five percent said they would report to the federal government, but “only if there was a chance for a substantial financial reward.”

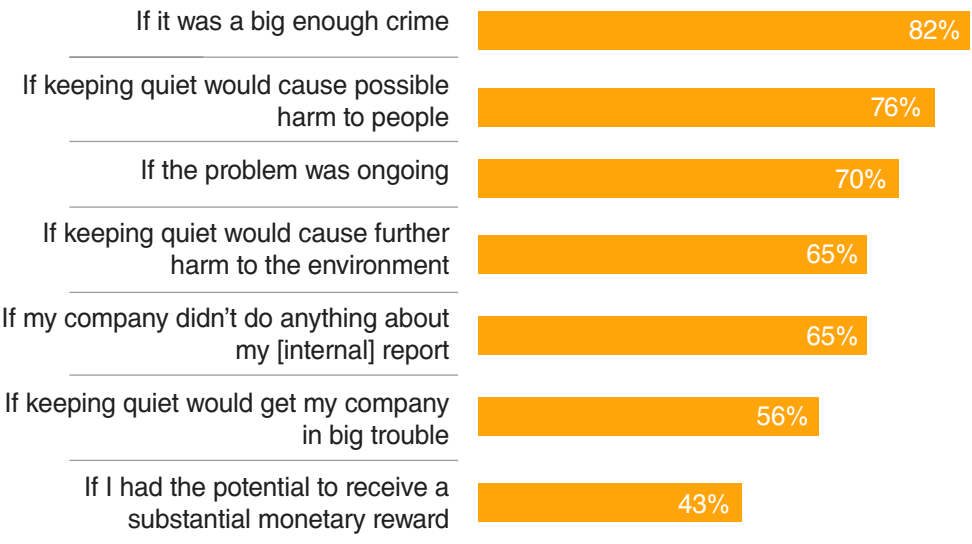
Percent of employees observing misconduct that could lead to a

**whistleblower bounty under Dodd-Frank**

**= 8%**

MONETARY REWARDS LEAST LIKELY TO MOTIVATE  
REPORTING TO GOVERNMENT

Reason for Reporting Outside Company:



### Sources of Pressure Change with Economy

This year's NBES shows that sources of pressure have shifted in response to economic weakness. Employees now say the top two sources of pressure are keeping their job and paying their bills. Four years ago, when the economy was more prosperous, job security was ranked near the bottom of the list.

In another apparent reflection of economic anxiety, almost one quarter of employees (23 percent) said they would be willing to look the other way if someone committed misconduct in order to save jobs or avoid cuts in pay and benefits. That compares to just 13 percent who answered similarly in 2009.

#### IN 2011, PERSONAL SURVIVAL GREATEST SOURCE OF PRESSURE TO COMPROMISE STANDARDS

| Source of Pressure   | 2007<br>Rankings | 2009<br>Rankings | 2011<br>Rankings |
|--|------------------|------------------|------------------|
| Keeping your job   | 5                | 2                | 1                |
| Meeting personal financial obligations*                        | 3                | 3                | 2                |
| Financial stability and success of your company                | n/a              | 1                | 3                |
| Advancing your career*   | 3                | 4                | 4                |
| Meeting performance goals                                      | 6                | n/a              | n/a              |
| Saving others' jobs  | 2                | n/a              | n/a              |
| Supervisors pressure   | 4                | n/a              | n/a              |
| Demands from people who support or invest in your organization | 1                | n/a              | n/a              |

Questions about sources of pressure were asked with different scales in 2007, 2009, and 2011. As a result, longitudinal comparisons are only possible using relative rankings.

\* These two items were asked as one item in 2007

### Employees More Positive about Regulation

While business leaders often rail against government regulation, a significant share of employees believe government oversight improves corporate behavior. Forty-two percent said regulation makes their industry more ethical. Thirteen percent said regulation has the opposite effect and makes their industry less ethical; 46 percent said regulation has no impact on ethics one way or the other.

### FCPA Violations and Improper Political Contributions on the Rise

Illegal political contributions are on the rise, climbing to four percent in 2011 from just one percent in 2009. Four percent of employees also report observing offers of improper payments to public officials.

In NBES, metrics for Foreign Corrupt Practices Act (FCPA) violations included inappropriate gifts; kickbacks; improper payments; or bribes to public officials. Employees surveyed for the NBES were not asked if the parties involved were foreign officials. As seen here, potential FCPA violations rose five points.

#### PERCENTAGE OF EMPLOYEES WHO OBSERVED A POTENTIAL FCPA VIOLATION



In 2011, **9 percent** of employees observed a potential FCPA violation compared to **5 percent** in 2009

### Active Social Networkers More Outspoken and More Willing to be Evaluated by Potential Employers

Social networking sites are a hotbed for political commentary, but online criticism is not reserved just for candidates. Forty-four percent of active social networkers said they felt it was okay to post an opinion about their co-workers' politics.

There have been stories about job candidates losing an employment opportunity because of an inappropriate post or picture on a social networking site. Overall, a third of those asked about the practice – both active users and non-active users – thought it was appropriate for an employer to consider a person's social active networking profile when making a hiring decision. But when the responses of active users are separated from less active colleagues or non-users, the results could be considered counterintuitive. Fifty-three percent of the active users said they felt it was appropriate for a potential employer to review their posts. In contrast, 31 percent of less active networkers and non-networkers agreed.

### More Employees are Aware of Ethics & Compliance Programs in their Workplace

In 2011, the United States Sentencing Commission marked the 20th anniversary since the promulgation of Federal Sentencing Guidelines for Organizations (FSGO). Historically ERC has asked employees about the extent to which they are aware that their company implements elements of an effective ethics and compliance program, as outlined in FSGO. To commemorate the anniversary, these questions were repeated in 2011.

**PREVALENCE OF ETHICS & COMPLIANCE PROGRAMS  
HAS GROWN SINCE PROMULGATION OF FSGO**

| Ethics & Compliance Program Elements<br>Recommended by the Federal Sentencing<br>Guidelines for Organizations (FSGO) | 1994 | 2000 | 2003 | 2005 | 2007 | 2011 |
|--|------|------|------|------|------|------|
| Written standards for ethical conduct  | 66%  | 79%  | 68%  | 83%  | 83%  | 82%  |
| Training on company standards of ethical<br>workplace conduct  | 37%  | 54%  | 50%  | 65%  | 75%  | 76%  |
| Provision of a mechanism for seeking<br>ethics-related advice or information   | 63%  | 47%  | 41%  | 63%  | 65%  | 68%  |
| Provision of a mechanism for reporting<br>misconduct anonymously   | n/a  | n/a  | 62%  | 71%  | 80%  | 77%  |
| Assessment of ethical conduct as a part of<br>employee performance evaluations                                       | n/a  | n/a  | 71%  | 66%  | 67%  | 67%  |
| Disciplining of employees who violate the<br>standards of the organization or the law                                | n/a  | n/a  | 79%  | 82%  | 88%  | 85%  |

In 2009, this series of questions was not asked



## 6 : CONCLUSION AND RECOMMENDATIONS

The 2011 NBES is unlike any we have seen before. Historically, workplace ethics mirror the economy – but in reverse. When the economy trails off, conduct improves – as it did in the 2009 NBES. Conversely, economic recovery and any expansion that follows are typically accompanied by a slippage in ethics because boom times tend to encourage riskier behavior.

But the current economy, in which corporate profits have bounced back even as unemployment remains unusually high, has resulted in a dual track for ethics as well. It appears the data reflect this uneven shift. With the return of organizational profitability, the strength of organizations' ethics cultures fell sharply in the 2011 NBES, even as individual employees – still anxious about their personal income and job security – have generally continued to uphold company standards.

Also clear is the impact of the burgeoning phenomenon that is social networking, which takes up an increasing portion of work time for many employees. Our research has revealed a significant ethics divide between those who are active on social networks and those who are not.

Overall, three primary conclusions can be drawn from the NBES findings in 2011:

- **Internal ethics are not immune to the external environment.** Workplace conduct is reactive to economic conditions and the pressures that come with them. Economic shifts call not only for adjustments in business strategy, but changes in the approach to ethics and compliance as well. Along with the first signs of economic improvement, we are also seeing substantial increases in pressure to compromise standards and retaliation against whistleblowers. In the long run, pressure and retaliation tend to reduce employees' willingness to report conduct issues to management. This could lead to more employees succumbing to the temptation to cut corners. Based on history, misconduct will likely rise and reporting will decline once economic recovery spreads. Companies that do not factor these external circumstances into their corporate strategies are short-sighted.

- **Social networking is highlighting differences in workplace ethics.** Technology is altering employees' perceptions about proper conduct in ways we do not yet fully understand. Already we are starting to see that active social networkers are also highly responsive when it comes to workplace ethics. The more employees are engaged with social networks while in the workplace, the more likely they are to report misconduct. Active social networkers are also somewhat more likely to say good things about their employers and their co-workers than they are to make negative comments on their social networks. These tendencies suggest that social networking presents an opportunity for business leaders who are focused on engaging employees around their ethics standards. Yet it appears that there is a negative impact of social networking, too. What is worrisome is that we also see indications that social networkers may have different definitions of what constitutes an ethics issue. As employees become more active on social networks, the more they express a tolerant view of questionable behaviors that could pose business risks. Regardless of their employer's policy on social networking on the job, employees are expressing a blurring of the lines between personal and professional relationships, and that could pose new risks to companies. As technology continues to change, so too may employees' ideas about what constitutes wrongful conduct at work.
- **The risks of an ethics downturn can be mitigated.** Despite the dramatic shift in patterns, the data continue to show what has been evident in NBES since 2000. When business leaders invest in a well-implemented ethics program and take steps to build a strong ethics culture in their organizations, the payoff is substantial. Outcomes are positive across the board: misconduct is reduced, pressure diminishes, reporting increases and retaliation against whistleblowers is negligible. Companies that take steps now to reinforce their ethics initiatives will be able to stave off an ethics downturn happening around them.

Business leaders, policymakers, as well as ethics and compliance professionals can take some proactive steps to prepare for the challenges ahead. Following are recommendations for each of these groups.

### Recommendations for Executives and Boards of Directors

As noted in this report, the decisions and actions of executives have a substantial influence on the ethics of their entire organizations. Not only do business leaders determine the allocation of resources to formal ethics and compliance programs, but their individual communications and behaviors are one of the largest drivers of the strength of ethics culture. Therefore, the priorities for executives should be three-fold: reinforcing current programmatic efforts, sustaining the recessionary efforts of business leaders to emphasize the importance of integrity, and facing the reality of social networking in their organizations. Following are some ways to address these priorities:

- **Invest deeply in ethics and compliance programs and make ethics a business priority.** Companies that do not have ethics and compliance programs should invest in the development of a code of conduct and the implementation of program practices that are considered to be best practice. Even if an ethics and compliance program is in place, what matters most is employee awareness that standards and resources are available and being actively used to ensure that integrity is a priority in business activity. Ensure that adequate resources are being given to ethics and compliance departments and that the presence of the program is communicated broadly to employees.
- **Make ethical leadership a part of performance evaluations for managers at all levels.** The development of a strong ethics culture is largely shaped by the actions of senior executives and immediate supervisors. The most effective way to promote these leadership behaviors is to implement performance standards for managers with specific behaviors that are evaluated and rewarded.
- **Communicate your personal commitment to ethical conduct.** During the recession, employees noticed that their business leaders were talking more about the importance of integrity despite difficult external circumstances. Even though the financial outlook may now be improving, these leadership actions should not only be continued, but heightened. Integrate references to company values and standards in formal and informal communications.

Explain how your commitment to business integrity factors into your decisions about business strategy. While seemingly unimportant, these efforts – if consistently done – have an infectious effect on employees throughout the organization.

- **Develop ways to strengthen your ethics culture using social networks.** Connections between people via technology are here to stay. Seize the opportunity for social networks to connect employees, engaging them in discussion about ethics issues. Seek out active social networkers and enlist them in efforts to positively integrate social networks into your business culture.
- **Revisit your company's non-retaliation policy and practices.** Determine whether improvements are required, make sure anti-retaliation rules are communicated effectively to employees at all levels. Insist that the rules be respected and enforced. Regularly communicate with employees about the company's response to allegations of misconduct – the more employees perceive that appropriate action will occur and whistleblowers will be protected, the more likely they will be to report misconduct.

### Recommendations for Policymakers

Policymakers should encourage laws and regulations that raise the bar for the development of well-implemented ethics and compliance programs and strong corporate ethics cultures. Penalties alone for falling short can motivate companies to invest in check-the-box programs that are little more than window dressing to meet the minimum standard. Longstanding, consistent improvement in conduct only occurs when companies build sound programs and strong ethics cultures that go beyond minimal levels of legal compliance. Some strategies for policymakers include the following:

- **Communicate the importance of ethics and compliance programs.** Lawmakers and executive branch officials should take every opportunity to reinforce the government's belief that corporate compliance is essential. For

example, enforcement officials should be more transparent about the credit they give for the presence of an ethics and compliance program in prosecutorial decisions. Tax credits should be considered for companies that can demonstrate that they have implemented effective programs and strong cultures, and government contracts should only be awarded to contractors that provide data-based evidence that they have effective programs and strong ethics cultures in place. A task force should be convened to consider other policy initiatives that would best incentivize company investment in ethics and compliance.

- **Encourage the measurement of ethics cultures.** The strength of cultures can and should be evaluated regularly. Public officials should set the expectation that companies regularly conduct assessments of their workplaces. Additionally, prosecutors who are considering alternative forms of enforcement against a corporation should insist on seeing data-based evidence that company defendants have taken steps to build a sound program and a strong ethics culture.
- **Reinforce company efforts to encourage and protect whistleblowers.** 2011 NBES data show that whistleblowers are under pressure and need support. Interestingly, despite the presence of new government resources and rewards for whistleblowers, employees' patterns for reporting remain unchanged. Whistleblowers prefer to report internally to their employers. As whistleblower protections become more widely known these behaviors may change, but as of now, financial rewards from government agencies do not seem to be enough of a motivator to cause employees to circumvent their employers. These are early indicators, but it seems clear that future policy efforts to support companies by encouraging employees to report internally will not detract from the purpose of a government whistleblower office. When wrongdoing is severe enough and action is not taken by companies, employees will come forward to the government for intervention.

### Recommendations for Ethics and Compliance Professionals

Even when senior management is firmly committed to building strong ethics cultures and encouraging ethical performance, day-to-day responsibility for reaching ethical goals rests primarily with full time ethics and compliance professionals. The 2011 NBES points to several action steps for them:

- **Focus on supervisors** who are the critical actors that set expectations for their direct reports, conduct evaluations, and are most likely to receive initial reports of misconduct. Develop specialized supervisor training on how to support ethical conduct by employees, how to properly handle reports of misconduct, and strategies for reducing retaliation. 2011 NBES data show that employees' confidence in supervisors' ethics has declined dramatically.
- **Help senior executives set a proper tone from the top.** Work with corporate communications experts and speechwriters to craft messages and communicate effectively with employees, assuring them that even as the company takes more risks during economic recovery, integrity remains a high priority. Encourage the establishment of performance metrics related to ethical leadership and reward business leaders for talking about the importance of ethics, modeling ethical conduct and holding employees accountable to the standards of the organization.
- **Honestly appraise your company's response process for reported misconduct.** Are investigations timely and thorough? Do appropriate consequences follow if wrongdoing is confirmed? Are whistleblowers informed about the response to their reports? Address any weaknesses identified and review industry best practices for possible improvements to your company's process.
- **Monitor the impact of whistleblower protections on employee reporting patterns.** 2011 NBES data show that whistleblowers are under pressure and need support. Interestingly, despite the presence of new government resources and rewards for whistleblowers, employees' patterns for reporting remain unchanged. Whistleblowers prefer to report internally to their

employers. As whistleblower protections become more widely known these behaviors may change, but as of now, financial rewards from government agencies do not seem to be enough of a motivator to cause employees to circumvent their internal reporting systems. The data also show that it is essential that companies be supported in their efforts to encourage and protect internal reporting of misconduct, since only 5 percent of employee reports are even eligible for a bounty under current regulation. These are early benchmarks. Future NBES studies will reveal more about the impact of bounties and other policies on whistleblower behavior. We encourage federal agencies and Congress to continue to monitor these and other findings on this issue. We recommend additional funding for research to understand the impact of government hotlines on employee reporting.

- **Target social networkers as a key demographic in your workplace.** Not only are active social networkers a group that is at risk for observing misconduct and experiencing retaliation, but they may hold the key to the next wave in building a strong ethics culture. Conduct focus groups with employees who are active social networkers to understand their perspective and experience. Convene a task force of employees to advise the ethics/compliance office in developing strategies for utilizing networks to build a strong ethics culture. Enlist social networkers in the effort to “message” ethics as a high priority in your organization.
- **Revisit your company’s non-retaliation policy** to make sure it is well understood across the company and working effectively. Work with other departments, including HR, to publicize retaliation policies and make clear that retaliation is itself a serious form of misconduct that will not be tolerated. Train supervisors and other managers in the proper responses to retaliation as well as behavior that might be perceived as retaliation even when that’s not the intent. And, of course, thoroughly investigate all reports of retaliation.

In sum, ethics in the American workplace are in transition. In this report, we have raised the red flag that if business proceeds “as usual,” the results of the 2013 NBES will likely take a turn for the worse. But this does not have to be the case – ethics can and do often improve. What matters is how business leaders and policymakers respond.

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The 2011 NBES Advisory Group includes leading ethics and compliance practitioners, specialists in research methods, academics in organizational ethics and sociology, consultants who apply our findings in the field and experts in social networking. The 2011 NBES research team thanks the following individuals for their insight and collaborative support, which have been invaluable.

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# Overview of Upcoming Supplemental Reports

## Inside the Mind of the Whistleblower

What can you do to ensure that observations of misconduct are reported and can be addressed? Learn what goes through employees' minds when deciding whether or not to report misconduct that they observe. This in-depth investigation of the reporting process will also explore:

- Reporting rates for different kinds of observed misconduct,
- Secondary sources that receive reports,
- Circumstances under which employees would report to the government.

## Social Networkers in the Workplace

One of the key findings of NBES 2011 was the unique—and often troubling—experiences of active social networkers. Active social networkers observe misconduct at a higher rate and are more likely to experience retaliation if they choose to report. This report will investigate key questions related to this important movement in the workplace:

- Who are active social networkers, and how do their beliefs about their companies compare to non-networkers?
- What kinds of misconduct do active social networkers observe and how do they differ from the rest of the employee population?
- How do their reporting behaviors compare to the employee population as a whole? Are their experiences with retaliation unique in form as well as frequency?

Finally, this report will look at ways to support active social networkers and the challenges they face and leveraging opportunities to make social networking a positive force for creating stronger ethical cultures.

## Software Piracy

As far back as 2007, ERC identified misuse of technology as being one of the most widespread and least reported forms of misconduct. In the intervening years, technology has become an even bigger force in American companies. In 2011, ERC gathered additional data about employees' views and behavior related to their companies technology resources. This report will explore:

- Employee attitudes about use (and misuse) of company software and technology
- Which employee groups are more tolerant of personal use of company software
- Who actually observes software piracy and how often it is properly reported to management

# Overview of Upcoming Supplemental Reports

## Ethics in Fortune 500 Companies

Since 1994, ERC's NBES has served as a benchmark of the state of ethics in American companies of all sizes. In 2011, ERC gathered additional data on the largest and most profitable companies in the nation. This report will address the unique experiences of Fortune 500® companies:

- Do more employees in Fortune 500 observe misconduct? Which kinds are most common-place?
- Is reporting more likely, and do reporting rates vary from the national average? Is retaliation against reporters more widespread?
- What is the state of ethics and compliance programs and ethical cultures among Fortune 500 companies?

## Employee Retaliation

NBES 2011 has identified the rise in retaliation as a critical warning sign of a possible ethical decline in American business. This update on research conducted in 2009 will use additional data collected in 2011 to answer several key questions:

- Which employees are more or less likely to experience retaliation?
- Are retaliation rates rising at a faster rate among particular groups of employees?
- Are certain forms more prevalent among particular groups of employees?
- How does retaliation impact employees' perceptions of management and victims' commitment to companies and work?

## Generational Differences

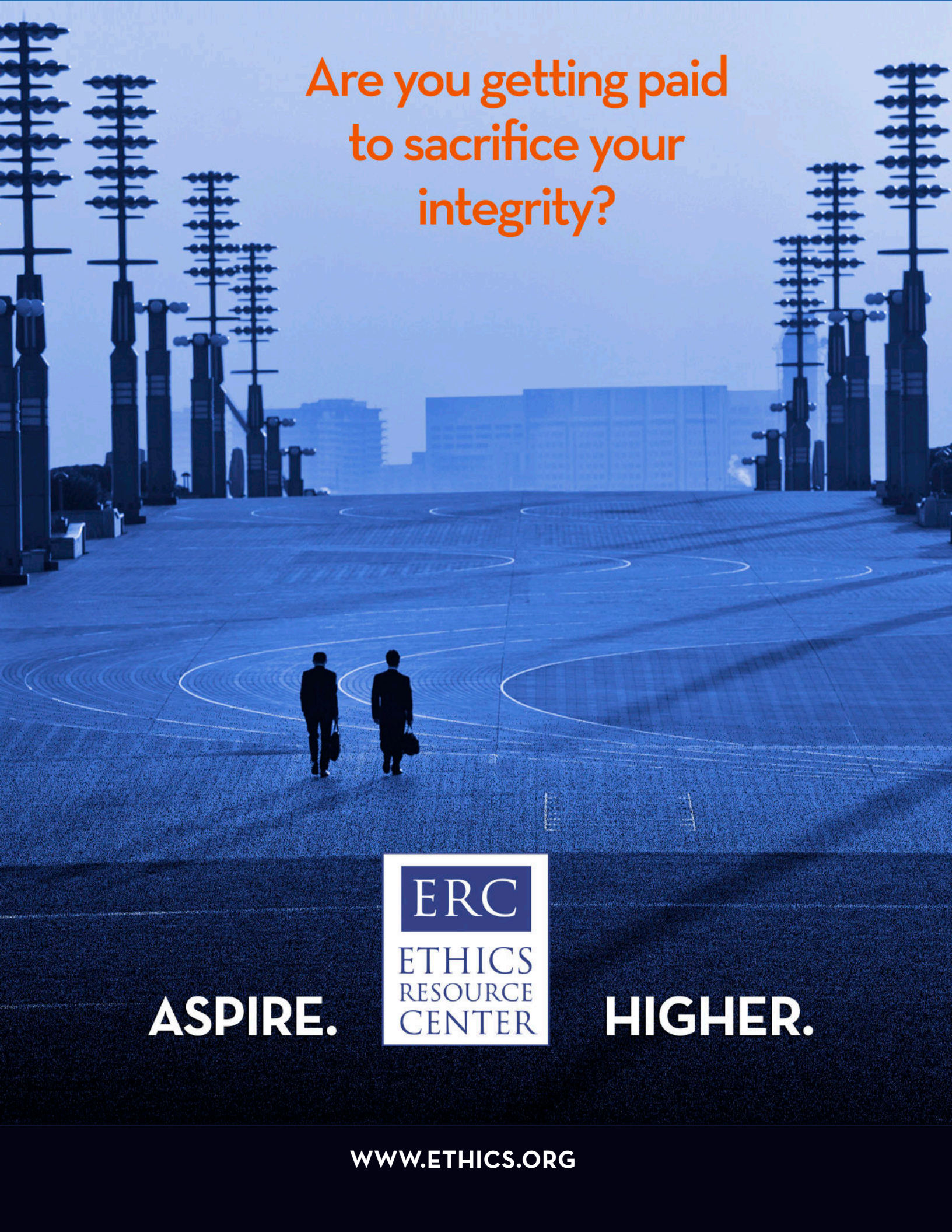
Are one's perceptions of ethics in the workplace a matter of one's generation or one's state in life? Do the youngest members of today's workforce differ considerably from their predecessors? In this update to the popular 2009 report, ERC will investigate how age, generational cohort, and time in the workforce impact ethics experiences at work. Key questions include:

- Do different generations observe different kinds of misconduct? Are different generations equally likely to report misconduct when observed?
- What factors drive reporting decisions in each age group, and what sorts of targeted efforts can management take to maximize reporting?
- How do the different generations feel about and use (and misuse) technology in the workplace? What opportunities exist to make technology a positive force for ethics among different age groups?

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A blue-tinted photograph of a large, empty sports arena. Two people in business suits are walking away from the camera towards the center of the arena. The arena floor has white circular markings. Tall stadium lights line the sides of the arena, and a city skyline is visible in the background under a clear sky.

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