The State of Ethics in Large Companies

A Supplemental Research Report from the National Business Ethics Survey (NBES®) 2013

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About the National Business Ethics Survey (NBES®) 2013

- Longitudinal, cross-sectional study first implemented in 1994
- National benchmark on business ethics
- From employee perspective
- Biennial since 2003; 2013 study is 8th in the series
- Over 34,000 surveyed for NBES
- All respondents: 18 years or older; working 20+ hr./week at company of 2 or more
Methodology for NBES 2013

- Business-only; 6,420 responses
- Dual mode: Online and phone (including cellular)
- Oversampling for companies with 90K+ employees
- Data weighted by: collection mode; age, gender, and education of respondent
- Data collected Sept. 30-Nov. 15, 2013
- Sampling error: +/- 1.2 percent at 95 percent confidence level
When the largest companies (those with 90,000 or more employees) successfully invest resources in ethics and compliance, they get impressive results.
Highly Effective Programs Are Less Prevalent in Large Companies Compared to Smaller Companies

- 22% of companies with 2-89,999 employees have highly effective programs.
- 14% of companies with 90,000+ employees have highly effective programs.

The difference is 8 percentage points (ppts) less in larger companies.

Data from the 2013 NBES®
# Importance of Effective E&C Programs

Large and Smaller Companies Have the Same Top Three Indicators of Program Effectiveness Correlating with Lower Retaliation Rates

<table>
<thead>
<tr>
<th>Indicators of Program Effectiveness</th>
<th>Company Size</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Under 90K Employees</td>
<td>90K+ Employees</td>
</tr>
<tr>
<td>Supervisor Provides Positive Feedback</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Can Approach Management Without Fear of Retaliation</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Prepared to Handle Ethics Situations</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Company Gives Recognition for Following Ethics Standards</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Company Does Not Reward Questionable Practices</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Frequency of Resource Use</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

Ranks are based upon the difference in rates of retaliation between employees’ agreement and disagreement of the indicators of program effectiveness. The indicators which made the most difference in retaliation were rated (1) and those with the least difference were rated (6).

Data from the 2013 NBES®
Ethics Cultures and Company Size

Ethics Cultures Are Typically Weaker in Large Companies Compared to Smaller Companies

Overall Culture
- 2-89,999 Employees: 40% Weak or Weak-leaning, 60% Strong or Strong-leaning
- 90,000+ Employees: 48% Weak or Weak-leaning, 52% Strong or Strong-leaning

Top Management Culture
- 2-89,999 Employees: 31% Weak or Weak-leaning, 69% Strong or Strong-leaning
- 90,000+ Employees: 40% Weak or Weak-leaning, 60% Strong or Strong-leaning

Supervisor Culture
- 2-89,999 Employees: 32% Weak or Weak-leaning, 68% Strong or Strong-leaning
- 90,000+ Employees: 40% Weak or Weak-leaning, 60% Strong or Strong-leaning

Coworker Culture
- 2-89,999 Employees: 34% Weak or Weak-leaning, 66% Strong or Strong-leaning
- 90,000+ Employees: 44% Weak or Weak-leaning, 56% Strong or Strong-leaning

Data from the 2013 NBES®

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A Quick Comparison of Key Outcomes Reveals a More Nuanced Picture of the Ways That Company Size Does and Does Not Matter

<table>
<thead>
<tr>
<th>Key Ethics Outcomes</th>
<th>Under 90K Employees</th>
<th>90K+ Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Felt Pressure to Compromise Standards</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Observed Misconduct in the Previous 12 Months</td>
<td>41%</td>
<td>51%</td>
</tr>
<tr>
<td>Reported Misconduct When Observed</td>
<td>63%</td>
<td>66%</td>
</tr>
<tr>
<td>Reporters Who Experienced Retaliation</td>
<td>22%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Items in **Red** are statistically worse. Items in **Green** are statistically better.

Data from the 2013 NBES®
Effective Ethics and Compliance Programs

Large Companies with Effective Programs See Positive Outcomes

- Pressure to Compromise Standards
  - Large Companies WITHOUT an Effective Program: 23%
  - Large Companies WITH an Effective Program: 3%
  - Increase: +20%

- Observed Misconduct
  - Large Companies WITHOUT an Effective Program: 33%
  - Large Companies WITH an Effective Program: 62%
  - Decrease: -29%

- Reported Misconduct
  - Large Companies WITHOUT an Effective Program: 32%
  - Large Companies WITH an Effective Program: 87%
  - Increase: +55%

- Experienced Retaliation
  - Large Companies WITHOUT an Effective Program: 59%
  - Large Companies WITH an Effective Program: 4%
  - Decrease: -55%

Data from the 2013 NBES®

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In Large Companies Strong Ethics Culture Is Related to Better Outcomes

- Pressure to Compromise Standards: Large Companies with a WEAK Ethics Culture (42%) vs. Large Companies with a STRONG Ethics Culture (6%)
- Observed Misconduct: Large Companies with a WEAK Ethics Culture (89%) vs. Large Companies with a STRONG Ethics Culture (42%)
- Reported Misconduct: Large Companies with a WEAK Ethics Culture (55%) vs. Large Companies with a STRONG Ethics Culture (73%)
- Experienced Retaliation: Large Companies with a WEAK Ethics Culture (58%) vs. Large Companies with a STRONG Ethics Culture (8%)

Data from the 2013 NBES®
Both Programs and Culture Matter: Each Contributing to Improved Outcomes

<table>
<thead>
<tr>
<th>Ethics Outcomes</th>
<th>Percentage Point Improvement When…</th>
<th>…Program Is Effective</th>
<th>…Culture Is Strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Felt Pressure to Compromise Standards</td>
<td></td>
<td>- 20 ppts</td>
<td>- 36 ppts</td>
</tr>
<tr>
<td>Observed Misconduct in the Previous 12 Months</td>
<td></td>
<td>- 29 ppts</td>
<td>- 47 ppts</td>
</tr>
<tr>
<td>Reported Misconduct When Observed</td>
<td></td>
<td>+ 55 ppts</td>
<td>+ 18 ppts</td>
</tr>
<tr>
<td>Reporters Who Experienced Retaliation</td>
<td></td>
<td>- 55 ppts</td>
<td>- 50 ppts</td>
</tr>
</tbody>
</table>

Items in Blue and Green are improvements, but the items in Green are more favorable than Blue.
Large Companies *without Effective Programs* Have Lower Levels of Pressure, Misconduct, and Retaliation Compared to Smaller Companies.
Well-Implemented* Ethics Program and Strong Ethics Cultures


2011 NBES Data Demonstrate That Ethics Programs Are More Critical to Culture-Building in Large Companies

- **Under 100K Employees**
  - Insufficient Program: 32%
  - Well-implemented Program: 90%

- **100K+ Employees**
  - Insufficient Program: 20%
  - Well-implemented Program: 93%

*Well-implemented program includes both a Comprehensive Program (all 6 elements) and Effective Program (all 6 indicators).*
Opportunities to Lead the Way
Top Management Ethical Behavior is Noticed in Both Large and Smaller Companies, Although There Is More Certainty in Smaller Companies

- **Top Management Conducts His/Her Personal Life in an Ethical Manner**
  - 2-89,999 Employees: Agree 8%, Neutral 19%, Disagree 73%
  - 90,000+ Employees: Agree 7%, Neutral 30%, Disagree 63%

- **Top Management Listens to What Employees Have to Say**
  - 2-89,999 Employees: Agree 15%, Neutral 13%, Disagree 72%
  - 90,000+ Employees: Agree 23%, Neutral 20%, Disagree 57%
Who Commits Misconduct?

In Large Companies With Strong* Ethics Cultures, There Are Fewer Management Level Employees Involved in Misconduct.

*Comparisons are made based on a three-tiered measure of culture.

Data from the 2013 NBES®
In Companies of All Sizes, Misconduct Is Generally Witnessed By Others of the Same Rank or Close in Rank, Except That of Senior Leaders

<table>
<thead>
<tr>
<th>Who Was Involved in the Misconduct?</th>
<th>Who Observed the Misconduct?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Top Mgmt</td>
</tr>
<tr>
<td>Senior Leaders</td>
<td>X</td>
</tr>
<tr>
<td>Middle Management</td>
<td>X</td>
</tr>
<tr>
<td>Direct Supervisor</td>
<td></td>
</tr>
<tr>
<td>Non-Management Employees</td>
<td></td>
</tr>
</tbody>
</table>

Items in **Dark Yellow** are statistically higher than un-highlighted cells. Items in **Light Yellow** are statistically equivalent to the Dark Yellow as well as one or more of the others.

Data from the 2013 NBES®
Specific Misconduct – Offenders and Observers

In Companies of All Sizes, a Look at a Few Types of Misconduct Involving The Senior- and Junior-most Employees Gives a Clear Picture That Ethics at All Levels Is Important

<table>
<thead>
<tr>
<th>Type of Misconduct Observed</th>
<th>Who Was Involved in the Misconduct?</th>
<th>Who Observed the Misconduct?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Top Mgmt</td>
<td>Middle Mgmt</td>
</tr>
<tr>
<td>Sexual Harassment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Leaders</td>
<td>54%</td>
<td>22%</td>
</tr>
<tr>
<td>Non-management</td>
<td>24%</td>
<td>42%</td>
</tr>
<tr>
<td>Abusive Behavior</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Leaders</td>
<td>34%</td>
<td>29%</td>
</tr>
<tr>
<td>Non-management</td>
<td>27%</td>
<td>35%</td>
</tr>
<tr>
<td>Misuse of Company’s Confidential Information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Leaders</td>
<td>56%</td>
<td>24%</td>
</tr>
<tr>
<td>Non-management</td>
<td>13%</td>
<td>22%</td>
</tr>
</tbody>
</table>

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Data from the 2013 NBES®
Top Management Is Least Likely to Be Held Accountable, and This Is More Pronounced in Large Companies

*The differences in accountability between large and smaller companies were significant for Top management and non-management, but not supervisor.

Data from the 2013 NBES®
A More Detailed Look at Ethics Outcomes in Large and Smaller Companies
# Misconduct More Prevalent in Large Companies

*However, the Most Common Types of Misconduct Are the Same for Both Large Companies and Smaller Companies*

<table>
<thead>
<tr>
<th>Specific Type of Misconduct Observed</th>
<th>Under 90K Employees</th>
<th>90K+ Employees</th>
<th>NBES 2013 Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lying to employees</td>
<td>17%</td>
<td>25%</td>
<td>17%</td>
</tr>
<tr>
<td>Abusive behavior</td>
<td>17%</td>
<td>20%</td>
<td>18%</td>
</tr>
<tr>
<td>Conflict of interest</td>
<td>12%</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>Discriminating against employees</td>
<td>12%</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>Violating company policies related to internet use</td>
<td>12%</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>Lying to customers, vendors, or the public</td>
<td>10%</td>
<td>16%</td>
<td>10%</td>
</tr>
<tr>
<td>Violating health and safety regulations</td>
<td>10%</td>
<td>14%</td>
<td>10%</td>
</tr>
</tbody>
</table>

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Data from the 2013 NBES®
Reporting Patterns are Similar Regardless of Company Size

**NBES 2013 Smaller Companies**
- Hotline: 35%
- Supervisor: 22%
- Higher Management: 14%
- Ethics Officer: 6%
- Human Resources: 6%
- Legal: 5%
- Government or Regulatory Authority: 4%
- Outside Non-Government: 7%
- Other: 1%

**NBES 2013 Large Companies**
- Hotline: 36%
- Supervisor: 24%
- Higher Management: 13%
- Ethics Officer: 6%
- Human Resources: 4%
- Legal: 3%
- Government or Regulatory Authority: 4%
- Outside Non-Government: 7%
- Other: 3%

Data from the 2013 NBES®
Retaliation Is Less Common in Strong Cultures

Large Companies See the Biggest Improvement in Rates of Retaliation Corresponding to Strong Ethics Cultures*

*Comparisons are made based on a three-tiered measure of culture.

Data from the 2013 NBES®
Retaliation Is Less Common in Companies with Effective Programs

Large Companies with at Least One Indicator of Program Effectiveness Measures See the Sharpest Decline in Retaliation

<table>
<thead>
<tr>
<th>Indicators of Program Effectiveness</th>
<th>UNDER 90,000 EMPLOYEES</th>
<th>90,000+ EMPLOYEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero or Uncertain</td>
<td>41%</td>
<td>37%</td>
</tr>
<tr>
<td>One to Five Measures</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>All Six Measures</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Indicators of Program Effectiveness

-17 ppts.

-21 ppts.

Data from the 2013 NBES®
Implications of the Findings

What Should Companies Do?
Implications of the Findings

Both Programs and Cultures Matter

*To Ensure a Well-Implemented Ethics and Compliance Program:*

- Assess the effectiveness of E&C program, ensuring employees are equipped and management at all levels are approachable and encouraging ethical conduct; and

- All companies, but especially smaller companies, take steps to bolster programs to ensure their effectiveness.

*To Promote a Strong Ethics Culture:*

- Increase presence and awareness of senior leaders’ ethical conduct to employees

- Model ethical behavior from the highest levels;

- Ensure top managers are holding each other accountable to ethics standards;

- Make ethical leadership a component of management training; and

- Invest in training programs and ethics advice resources that are pragmatic, approachable, and accessible.
Ethics Research Center

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