



ETHICS
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RESEARCH
REPORT

**Critical
Elements
of an
Organizational
Ethical
Culture**

Produced by the
Ethics Resource Center
in partnership with



Critical Elements of an Organizational Ethical Culture

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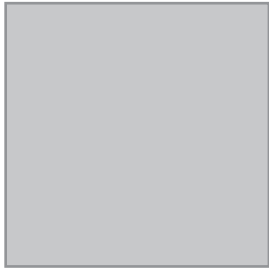


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Executive Summary

In the 2005 National Business Ethics Survey ® (NBES), the Ethics Resource Center (ERC) finds that a formal ethics and compliance program alone does not substantially impact outcomes. Additional analysis reveals that ethical culture often has more of an impact on achieving an effective ethics and compliance program than do program inputs and activities.

NBES measures eighteen dimensions of ethical culture by asking employees if their top and middle management, supervisors, and coworkers demonstrate various “Ethics Related Actions” (ERAs) in the workplace. ERC found that employees who perceive their managers, supervisors, and coworkers displaying ERAs are more likely to observe outcomes expected of an effective ethics and compliance program than those whose colleagues and managers exhibit fewer ERAs. This paper builds upon the NBES findings on ethical culture and explores which ERAs have a greater impact on program outcomes. In addition, this paper presents new analysis on whether ethics training is more useful for junior employees than for senior employees.

KEY FINDINGS:

- 1) Three ERAs have an especially large impact on outcomes expected of an ethics and compliance program:
 - Setting a good example;
 - Keeping promises and commitments; and
 - Supporting others in adhering to ethics standards.
- 2) Formal ethics training does not have the same impact on all levels of employees.



KEY CONCLUSIONS:

- *Actions speak louder than words.* Results regarding the three ERAs with the greatest impact on outcomes imply that having a general organization-wide ethics communication strategy is not enough to create desired outcomes. Employees need to see their superiors and peers demonstrate ethical behavior in the work they do and decisions they make every day.
- *Training needs to be different for management versus non-management employees.* Ethics training is more useful in helping junior employees feel prepared to handle situations that invite misconduct than it is for senior employees. This does not suggest eliminating all ethics training for top and mid-management employees. What it does suggest is developing training curricula that takes these differences into account.



Foreword: Steps to Creating an Ethical Culture

The Ethics Resource Center’s National Business Ethics Survey® (NBES) has been invaluable in calling attention to the impact of culture on the effectiveness of ethics and compliance programs. While many companies are still coming to grips with the role of culture in defining an effective program, many more companies are now ready for definitive guidance in how to create such a culture.

In developing ethics and compliance strategies and training programs for its clients, Working Values Ltd. has often found that the organizations that stood the best chance of effecting real change in moving toward an ethical culture were those with a higher level of self-knowledge of their own cultural strengths and vulnerabilities. However, it is often an open question as to what type of intervention is the most effective in generating the desired change. Ethics training that is primarily directed to telling employees what is expected of them is usually far less successful than training that addresses specific employees behaviors that influence the culture; the challenge lies in pinpointing these behaviors and taking appropriate measures to address them.

The “Ethics Related Actions” (ERAs) set forth in the NBES serve as a valuable tool in providing the broad parameters of a comprehensive ethics program. Many of the ERAs lend themselves to specific types of training and communication interventions, which can improve and increase the desired behavior. To gain a better understanding of how these behaviors influence corporate culture, Working Values asked the Ethics Resource Center to drill down further into the NBES data to explore whether any of the ERAs have greater impact than others in fostering an ethical culture.



In the study that follows, the Ethics Resource Center has identified three types of ERAs that have an especially great impact on outcomes expected of an ethics program. ERAs such as setting a good example, keeping promises and commitments, and supporting others in adhering to ethics standards can have a powerful influence on building an ethical culture. However, they can also be difficult to achieve if the organization's efforts are anything less than 100%. Therefore, to the extent companies can use this research to help focus attention of leadership on the critical need to improve these ERAs in their own organization, the better chance the organization has to reach its program goals.

Working Values is proud to have been a sponsor of this additional research undertaken by the Ethics Resource Center into the NBES. We all share the same goal of having every company put forward the most effective ethics program possible.

David Gebler,
President, Working Values Ltd.



Introduction

In the 2005 National Business Ethics Survey® (NBES) study, the Ethics Resource Center (ERC) presented research regarding elements of ethics and compliance programs, the ethical culture of organizations, and outcomes expected of an ethics and compliance program.¹ Findings from NBES 2005 suggest that organizations should use their ethics and compliance programs to foster a culture committed to ethics throughout the organization. These findings were based on measures of ethical culture that included the “Ethics Related Actions” (ERAs) of top and middle management, supervisors, and coworkers.

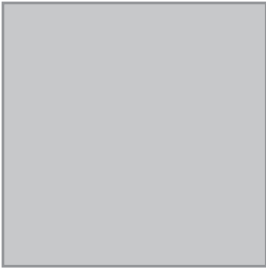
ERC’s findings suggest that organizations should focus training not only on informing employees about compliance with regulations, but also on encouraging employees to behave in a way that is conducive to a strong ethical culture. This paper presents new analysis on whether specific ERAs have a greater impact on outcomes than others. In addition, ERC analyzes whether ethics training is more useful to senior employees than junior employees.

This research is useful for organizations in several ways. The findings emphasize the notion of actions speaking louder than words. By identifying which ERAs have a greater impact, organizations can better target training to promote a culture committed to ethical conduct in the workplace. Organizations that dedicate substantial resources to the communication of ethical values may find that resources are better spent encouraging leadership to set a good example of ethical behavior, establishing organizational trustworthiness in keeping promises, and helping employees to make ethical decisions. The findings are also instructive in

¹ The NBES is a national household survey that has been conducted four times since 1994. The most recent survey, conducted in 2005, was a random telephone survey of 3015 individuals nationwide. A detailed discussion of the survey can be found in *National Business Ethics Survey: How Employees View Ethics in Their Organizations 1994-2005*, Ethics Resource Center, 2005.



pointing out how organizations can tailor their ethics training to different levels of employees. Upper management may need less emphasis on how to handle ethical dilemmas and more emphasis on how to engage in ERAs, while junior employees may need instructions on how to proceed when faced with ethics challenges.



Measures of Ethics Related Actions and Expected Program Outcomes

NBES 2005 measures eighteen elements of ethical culture that indicate employee perceptions of the way top and middle management, supervisors, and coworkers behave. ERAs measured in NBES 2005 include:

Figure 1 Definition of ERAs

Top Management	<ul style="list-style-type: none"> • Communicates ethics as a priority • Sets a good example of ethical conduct • Keeps promises and commitments • Provides information about what is going on • Employees perceive that top managers are held accountable for ethics violations
Middle Management	<ul style="list-style-type: none"> • Communicates ethics as a priority • Sets a good example of ethical conduct • Keeps promises and commitments • Employees perceive that middle managers are held accountable for ethics violations
Supervisors	<ul style="list-style-type: none"> • Communicate ethics as a priority • Set a good example of ethical conduct • Keep promises and commitments • Support employees in following organizational standards



Coworkers	<ul style="list-style-type: none"> • Consider ethics while making decisions • Set a good example of ethical conduct • Talk about importance of ethics • Support employees in following organizational standards • Employees perceive that non-managers are held accountable for ethics violations ²
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ERC examined whether certain types of ERAs are more powerful than others in influencing outcomes expected of an ethics and compliance program. The NBES contains eight measures of expected results from a successful ethics and compliance program:

Figure 2 Expected Program Outcomes

Reduced observation of any type of misconduct
Reduced observation of specific types of misconduct
Increased reporting among those who observe misconduct
Increased satisfaction with management’s response to reports of misconduct
Increased satisfaction with the organization
Reduced exposure to situations that could result in misconduct
Increased preparation to respond appropriately to situations that could result in misconduct
Reduced pressure to compromise ethics standards or the law

² Coworkers are not necessarily non-managers, but for the purposes of this analysis we have included the question about “non-management accountability” in discussions of coworkers’ ERAs.



The Impact of Types of Ethics Related Actions

While NBES 2005 measures eighteen elements of ethical culture and eight measures of outcomes expected of an ethics and compliance program, some of the eighteen ERAs are more strongly associated with outcomes than others. Generally, setting a good ethical example, keeping promises and commitments, and supporting others in their adherence to ethics standards are more powerfully associated with outcomes than talking about the importance of ethics.

First, we present analysis on the impact of top management ERAs. The NBES data suggest that when top management sets a good example of ethical conduct, disseminates adequate information about what is going on in the organization, and keeps its promises and commitments, employees are more likely to see

Analytical Methodology

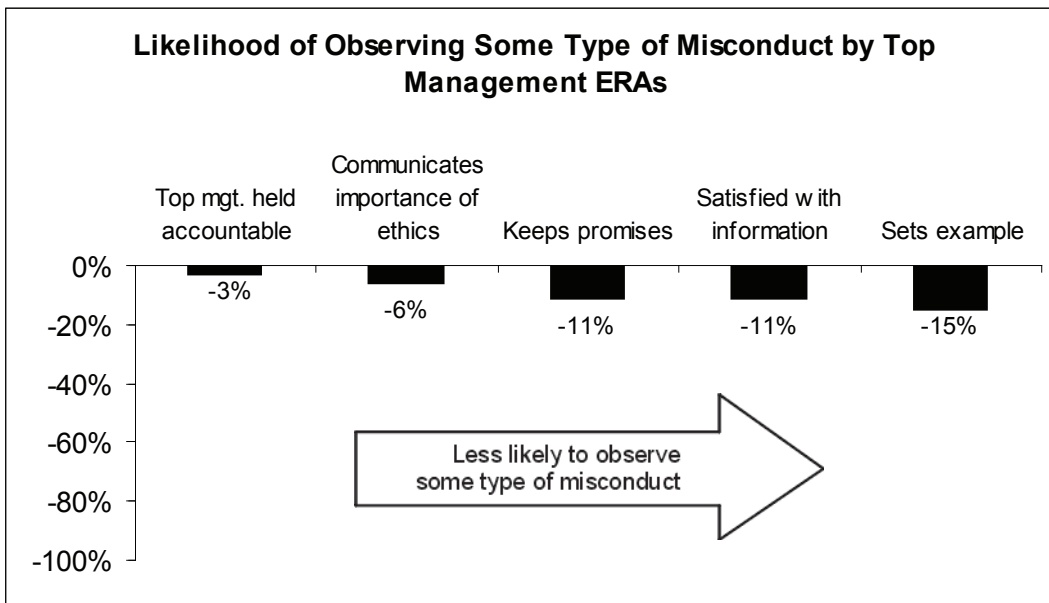
In order to determine whether particular ERAs have a greater impact than others on the outcomes expected of an ethics and compliance program, ERC conducted logit regression, and then calculated the “predicted probabilities” of employees observing various program outcomes if they perceive particular ERAs to take place.³

³ ERC analyzed the results of 32 different regression equations. The equations were run on 8 different “dependent variables,” which were the eight different program outcomes described in Figure 2 of this report. Four sets of equations were run on each dependent variable. Each set contained one group of ethics related activities: top management’s ERAs, middle management’s ERAs, supervisors’ ERAs, and coworkers’ ERAs. Each equation included an identical group of control variables: participation/non-participation in ethics training; supervisors does/does not discipline ethics violators; organization has/has not been involved in a merger, acquisition, or restructuring; company size; tenure; management level; is/is not union member; age; level of education; annual salary; and gender. ERC used SPSS to run the logit regression models and determine which variables were statistically significant. ERC then selected several illustrative equations for which it used the SPost add-on module in STATA to generate the percent changes in predicted probabilities that are shown in Charts One through Five in this paper (Long, J. Scott and Jeremy Freese. 2001. *Regression models for categorical dependent variables using Stata*. College Station, TX: Stata Corporation.).



positive outcomes expected of an ethics program.⁴ For example, an employee who perceives that top management sets a good example is 15 percentage points less likely to observe misconduct than one who does not perceive that top management sets a good example (see Figure 3). Likewise, an employee who is satisfied with the information distributed by top management or who feels that top management keeps their promises and commitments is 11 percentage points less likely to see misconduct than an employee who is dissatisfied with information disseminated or who does not think that top management keeps their promises and commitments. In contrast, an employee who perceives that top management communicates the importance of ethics is only 6 percentage points less likely to observe misconduct than one who does not, and an employee who perceives that top management is held accountable for ethics violations is only 3 percentage points less likely to observe misconduct than one who does not.

Figure 3 Observation of Misconduct and Top Management Ethics Related Actions

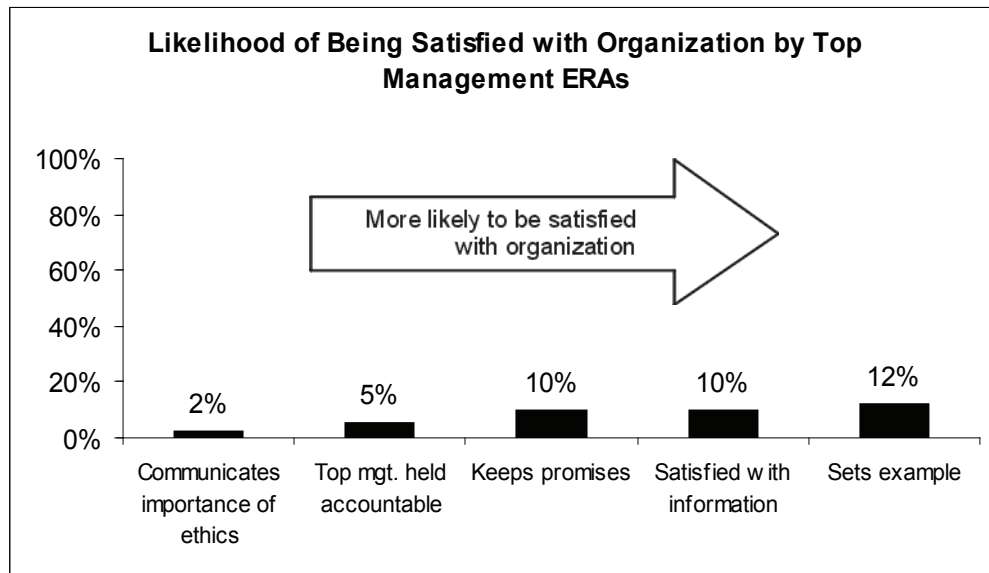


⁴ Top management keeping promises and commitments has a statistically significant impact on 6 outcomes; setting a good example has an impact on 6 outcomes; providing adequate information has an impact on 5 outcomes; being held accountable has an impact on 4 outcomes; and communicating the importance of ethics has an impact on 2 outcomes.



The findings are similar with respect to the top management ERAs that influence employees' satisfaction with their organization. Figure 4 shows that employees who perceive that top management sets a good example of ethical business behavior, adequately disseminates information, and keeps promises and commitments, are 10 to 12 percentage points more likely to be satisfied with the organization where they work than those who do not perceive that top management engages in these ERAs. In contrast, the perceptions that top management is held accountable and communicates the importance of ethics have a smaller impact on satisfaction.⁵

Figure 4 Satisfaction with Organization and Top Management Ethics Related Actions



Similar to the findings regarding top management, ERAs performed by middle managers that have the most widespread impact on outcomes include upholding promises and commitments and setting a good example of ethical business behavior.⁶ For example, Figure 5 shows that when middle managers

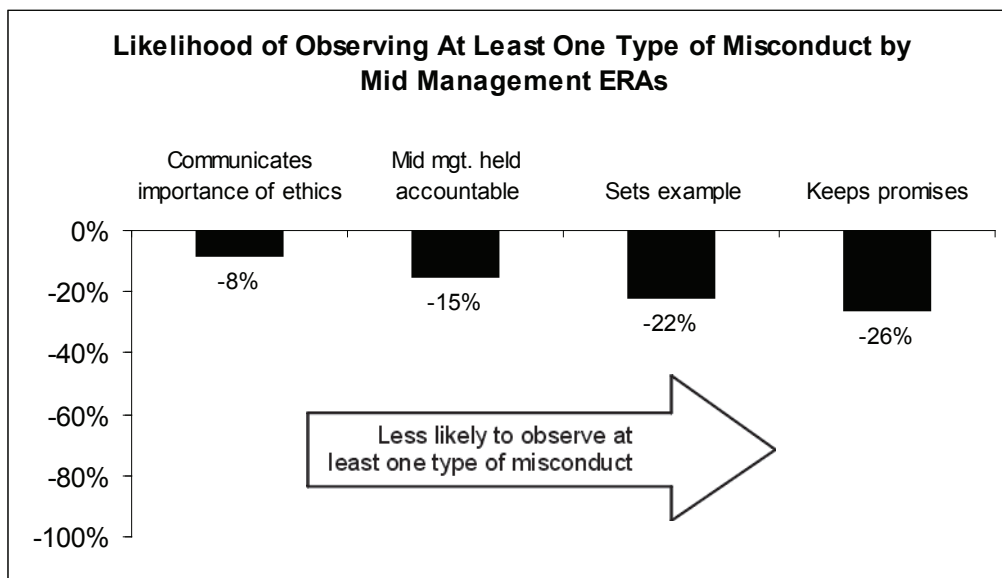
⁵ Furthermore, communicating about ethics, when included in the logit regression model, is not a statistically significant predictor of satisfaction with one's workplace.

⁶ Middle management keeping promises and commitments has a statistically significant impact on 7 outcomes; setting a good example has an impact on 7 outcomes; being held accountable has an impact on 4 outcomes; and communicating the importance of ethics has an impact on 4 outcomes.



keep promises and commitments, employees are 26 percentage points less likely to observe at least one specific type of misconduct than employees who do not see middle management demonstrate this ERA. In contrast, employees who perceive that middle management communicates the importance of ethics are 8 percentage points less likely to observe at least one specific type of misconduct than employees who do not perceive this.

Figure 5 Observation of Misconduct and Middle Management Ethics Related Actions



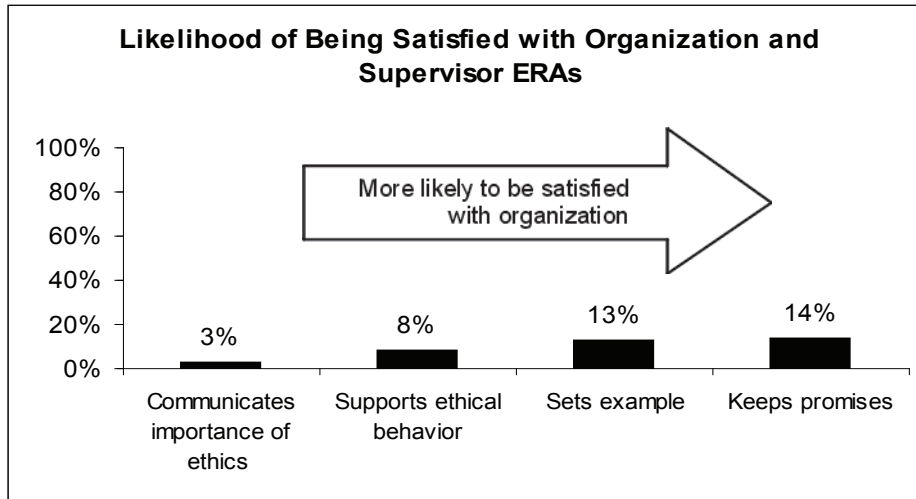
As with actions of top and middle management, when supervisors set a good example of ethical business behavior, employees are more likely to observe several positive program outcomes than when supervisors do not set a good example.⁷ Additionally when supervisors support employees in adhering to their organizations' ethics standards, positive outcomes result. For example, Figure 6 shows that employees who perceive that their supervisor sets a good example are 13 percentage points more likely to be satisfied with the company they work for than employees who do not perceive that their supervisor sets a good example.

⁷ Supervisors supporting employees' adherence to ethics standards has a statistically significant impact on 6 outcomes; supervisors setting a good example has an impact on 5 outcomes; keeping promises and commitments has an impact on 3 outcomes; and communicating the importance of ethics has an impact on 1 outcome.



This is a much larger impact than that of communicating the importance of ethics, which increases the likelihood of satisfaction by only 3 percentage points, and is not statistically significant.

Figure 6 Supervisor Ethics Related Actions and Satisfaction with Organization

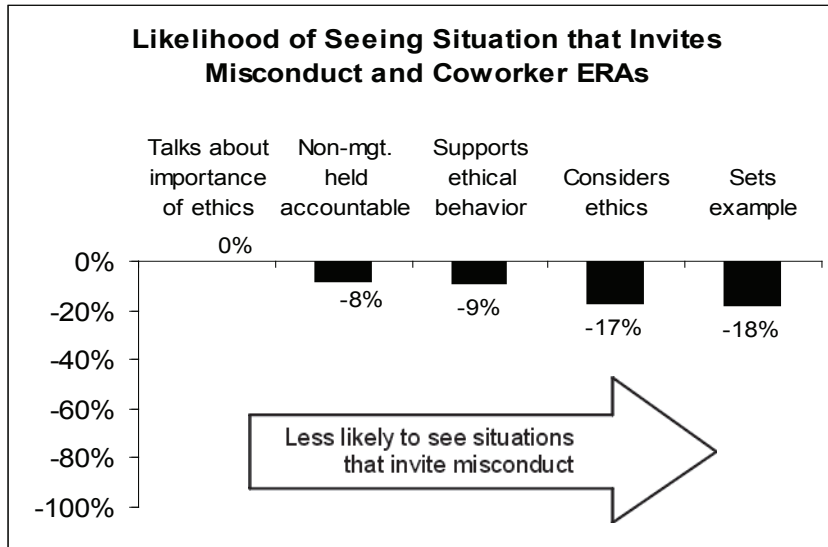


Finally, among ERAs performed by coworkers, considering ethics during decision-making, supporting each other’s adherence to ethics standards, and setting a good example have a greater impact on outcomes than other ERAs.⁸ Figure 7 shows that employees who perceive that their coworkers set a good example and support adherence to ethics standards are at least 17 percentage points less likely to see situations that invite misconduct than employees whose coworkers do not engage in these ERAs. In contrast, an employee who perceives that their coworkers talk about the importance of ethics is neither more nor less likely to see risky situations than an employee who does not.

⁸ Coworkers considering ethics during decision-making has a statistically significant impact on 6 outcomes; coworkers supporting each other in adhering to ethics standards has an impact on 5 outcomes; coworkers setting a good example has an impact on 4 outcomes; non-management employees being held accountable has an impact on 4 outcomes; and coworkers talking about the importance of ethics has an impact on 2 outcomes.



Figure 7 Coworker Ethics Related Actions and Risk



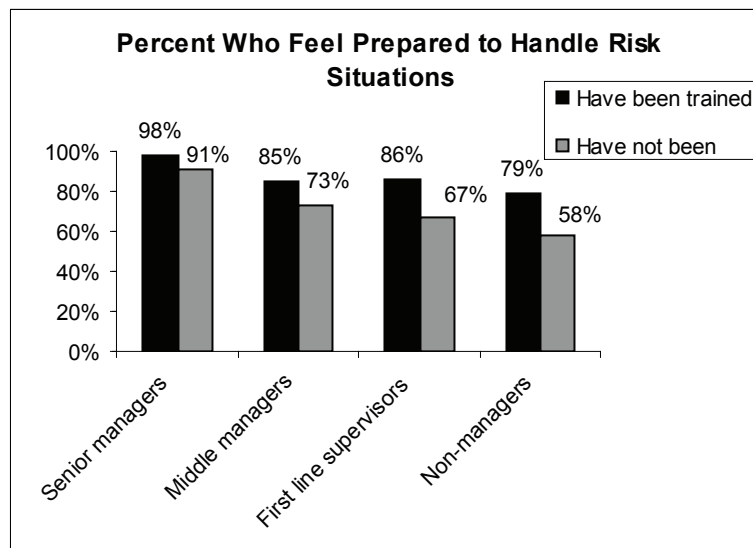


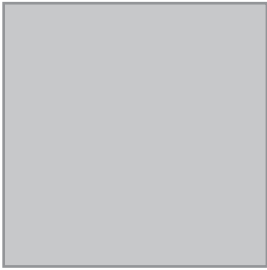
The Impact of Ethics Training Among Levels of Employees

Having shown that not all ERAs or levels of employees have an equally important impact on outcomes, we now turn to the third second research question in this paper: Does formal ethics training have the same impact on all levels of employees? Specifically, does training help all employees feel more prepared to handle ethically challenging situations or does it help some more than others?

Figure 8 reveals that training has a greater impact on less senior employees than on more senior employees. Ninety-eight percent of senior managers who have been trained feel prepared to handle risk compared to 91 percent of those who have not been trained, which is only a 7 percentage point difference. However, as one moves across management levels, the gap becomes more prominent. For example, 79 percent of non-managers who have been trained feel prepared to handle risk, compared to 58 percent of non-managers who have not been trained. This is a 21 percentage point gap, and the difference is statistically significant.

Figure 8 Impact of Training on Preparedness to Handle Risk





Conclusion

This study suggests that certain Ethics Related Actions (ERAs) have a greater impact on outcomes expected of an ethics and compliance program than others. Specifically, this research shows that, across all employee levels, setting a good example, keeping promises and commitments, and supporting others in adhering to ethics standards have the greatest impact on outcomes. Communicating the importance of ethics is less frequently associated with improved outcomes, which could be due to employee perceptions that “living one’s values” or “walking the talk” is more credible than only talking about ethics. Ethics and compliance programs are more effective when employees throughout an organization act to promote, rather than just talk about, ethics.

This study also reveals that ethics training is more helpful in preparing junior level employees to handle ethics situations than senior ones. This does not mean that organizations should abandon training programs created for upper echelons of management. Perhaps senior managers develop ethical decision making skills through their professional experiences moving up the organizational hierarchy and, therefore, training has a different impact on junior employees who are not as familiar with ethics issues. Upper management may benefit from issue or topic-specific training that helps raise their awareness of particular types of misconduct; however, comprehensive training programs that strengthen ethical decisionmaking skills may be more beneficial for junior employees.



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