



ECI ethics & compliance initiative™

MEASURING THE IMPACT OF **ETHICS & COMPLIANCE** PROGRAMS

JUNE 2018



GLOBAL BUSINESS
ETHICS SURVEY™

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ECI

2650 Park Tower Dr., Suite 802

Vienna VA 22180

Telephone: 703.647.2185 | FAX: 703.647.2180

www.ethics.org | research@ethics.org



ABOUT ECI

The Ethics & Compliance Initiative (ECI) empowers organizations to build and sustain High Quality Ethics & Compliance Programs (HQPs). ECI provides leading ethics and compliance research and best practices, networking opportunities and certification to its membership.

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GROUNDBREAKING INSIGHTS FROM GBES

Employees offer an invaluable perspective when it comes to E&C perceptions, actions and behaviors in the workplace. With each iteration of ECI's Global Business Ethics Survey, we learn more from employees about the need for—and the impact of—corporate efforts to implement E&C programs.

Since its inception in 1994, there have been several groundbreaking insights from GBES that have changed industry practice.



1. Outcomes: 1. Feel less pressure to compromise ethics standards; 2. Observe less misconduct; 3. Are more satisfied with the response to reported misconduct; 4. Are more satisfied with their organizations overall; and 5. Feel more valued as employees. Ethics Resource Center. (2000). *National Business Ethics Survey™: How Employees Perceive Ethics at Work*.



GLOBAL BUSINESS ETHICS SURVEY™

Never before have employees revealed so much about the impact of an E&C program, and the positive return for E&C program investment.

Since 1994, the Ethics & Compliance Initiative (ECI) has conducted a longitudinal, cross-sectional study of workplace conduct from the employee's perspective. Participants are asked for input on such things as the strength of the culture in their workplace, the instances of misconduct that they have observed, and what—if any—efforts are underway in their organization to promote integrity. The data from the Global Business Ethics Survey (GBES) provide the international benchmark on the state of ethics & compliance in business.

Historically, ECI reported findings from the research under two titles: the National Business Ethics Survey (NBES), which provided measures of US workplaces; and the Global Business Ethics Survey (GBES), which expanded the dataset to include input from employees around the world. In 2017, ECI updated both the US and global studies and combined the research under the GBES name. For more information about the study, to access previous reports, and to view the 2018 international data, please visit our interactive website at www.ethics.org/GBES.

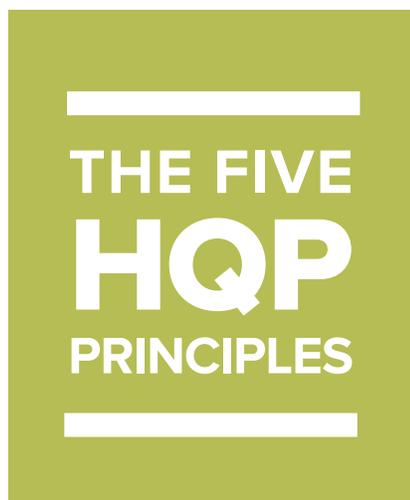
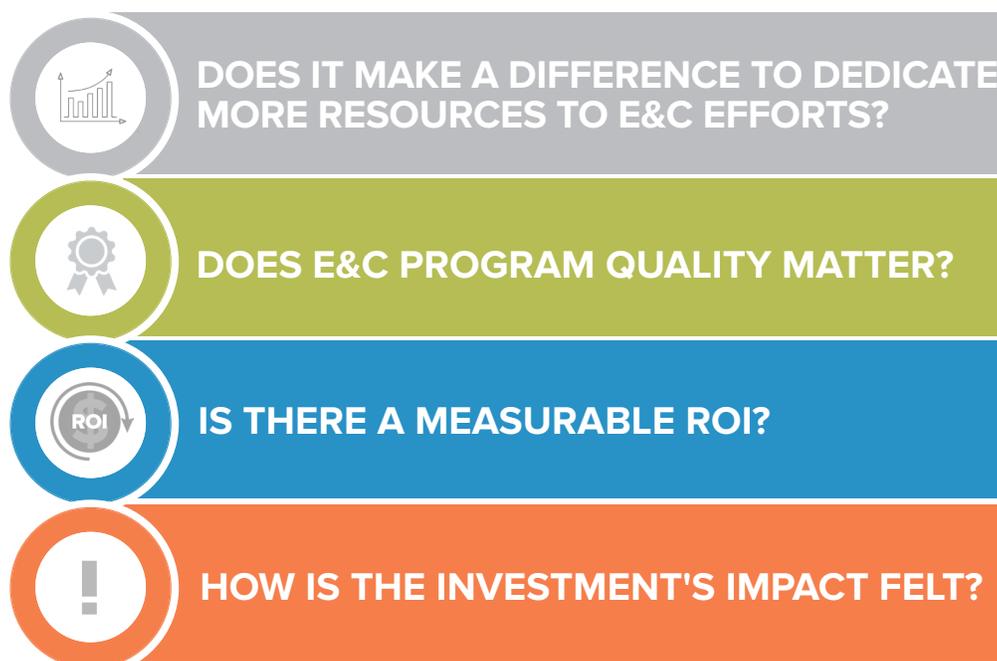
This report focuses on the impact that an ethics & compliance program has in the workplace, and the statistical return on investment (ROI) for programs defined as High Quality Ethics & Compliance Programs (HQPs).² This report is the second of a four-part series planned for 2018, and it references data from the 11th implementation of the GBES.

2. ECI convened a panel of thought leaders and challenged them to identify principles that are inherent in High Quality Ethics & Compliance Programs (HQPs). The findings were published in 2016 as *ECI's Blue Ribbon Panel Report, Principles and Practices of High-Quality Ethics & Compliance Programs*. (<https://ethics.org/hqp-standards>)

EXECUTIVE SUMMARY

Corporations have historically organized their ethics and compliance (E&C) programs around a priority to align with legal and regulatory expectations. Yet increasingly, organizations are going above and beyond historic regulatory risk mitigation.

With more and more organizations committing to higher quality programs, it begs the question: does it make a difference when a company dedicates more resources and heightens the priority of their E&C efforts?



STRATEGY

E&C is central to business strategy.

RISK MANAGEMENT

Risks are identified, owned, managed and mitigated.

A CULTURE OF INTEGRITY

Leaders at all levels build and sustain a culture of integrity.

SPEAKING UP

The organization encourages, protects and values the reporting of concerns and suspected wrongdoing.

ACCOUNTABILITY

The organization acts and holds itself accountable when wrongdoing occurs.

To find an answer, we asked employees about the presence of an E&C program in their workplace. We also inquired about the quality of that program, if it existed. We then examined the impact and value of E&C in organizations with programs at varying degrees along the HQP implementation continuum.

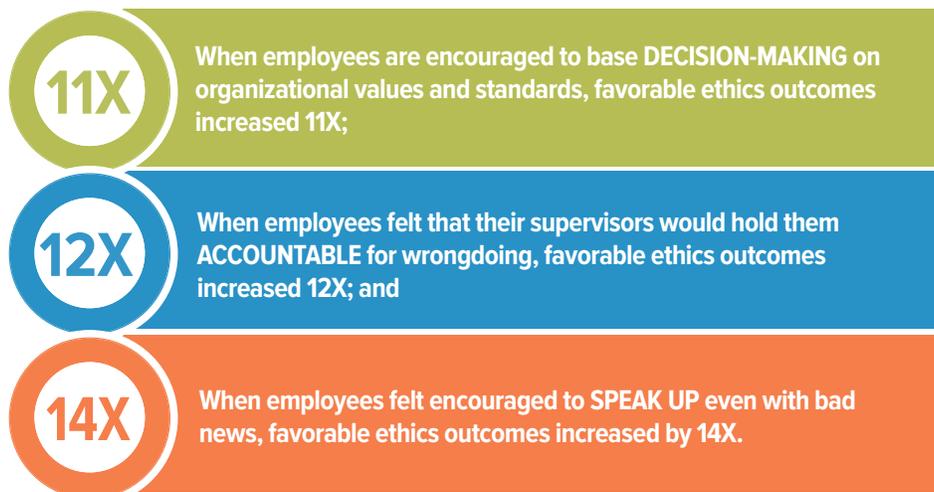
THE RESULTS ARE POWERFUL.

The data shows that improving the quality of certain factors of an E&C program, at any stage of the program implementation process, has a positive impact to the organization.

Developing a successful E&C program is a journey. High quality program development takes time, planning and resources. However, if an organization does nothing more than implement a minimum standard E&C program, it can still reap benefits because employees are more likely to perceive that they work in an organization with a stronger culture, and they are more willing to report wrongdoing when it occurs.²

But the results of a minimum standard E&C program pale by comparison to organizations that have incorporated elements of HQPs. In these environments, the prevalence of favorable ethics program outcomes increases exponentially.

IN ORGANIZATIONS WHERE EMPLOYEES PERCEIVE THAT AN HQP ELEMENT IS PRESENT, FAVORABLE ETHICS PROGRAM OUTCOMES³ ARE INCREASED MORE THAN 10X:



2. Employees in stronger cultures (83%) were more likely to report misconduct compared with those in weaker cultures (58%).

3. The existence of favorable ethics outcomes is measured when employees “see, hear and feel” the elements of an HQP. These “favorable outcomes” and their measured impact are listed on the Appendix B of this report.

E&C PROGRAMS MAKE A DIFFERENCE

Companies initiate E&C programs for a variety of reasons. Sometimes an act of wrongdoing has taken place, awakening leaders to the need for a formal effort to prevent similar incidents going forward. At times, regulatory or legal requirements heighten the need for an organization to initiate a program. In other instances, leaders want to promote a standard of conduct to guide everyday employee actions and behaviors related to E&C simply because they believe it to be important for the success of the business.

For many years, the de facto standard for an “effective” E&C program was the bare minimum—compliance with the law.

As such, in previous iterations of the GBES when ECI has asked employees about E&C in their workplaces, we have considered a program to be “effective” when workers recognize the presence of key elements that comply with prominent regulatory standards.

Yet increasingly, organizations are going above the minimum standard, implementing programs based on the view that E&C should entail much more. We wanted to better understand the efforts of organizations that have invested in higher quality programs.

Therefore, we not only asked employees about the presence of an E&C program in their workplace. We also asked questions indicative of the quality of the program. We then examined the state of E&C in organizations with programs of varying degrees of implementation and its impact on culture and outcomes.

For metrics, we leaned on the definition of an HQP and followed the 15 business objectives linked to these types of programs as established by an ECI sponsored Blue Ribbon Panel in 2016.⁴

PURPOSE OF E&C PROGRAMS

- Ensure and sustain integrity in the organization’s performance and reputation;
- Reduce the risk of wrongdoing by parties employed by or aligned with the organization;
- Increase the likelihood that wrongdoing will be made known to management;
- Increase the likelihood that the organization will responsibly handle suspected and substantiated wrongdoing; and,
- Mitigate penalties imposed by regulatory and governmental authorities for violations.

AN E&C PROGRAM HAS A POSITIVE IMPACT.

4. <https://ethics.org/hqp-standards>

INITIATE A PROGRAM — MAKE A DIFFERENCE

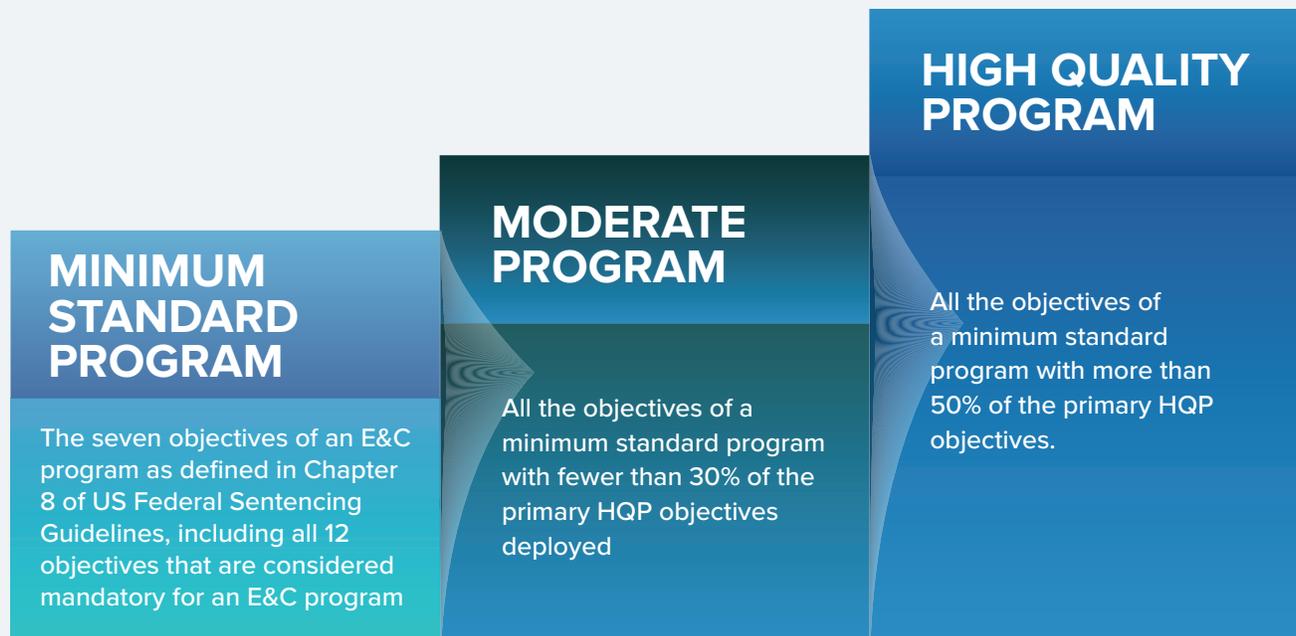
Organizations must start somewhere in launching their programs. While most organizations begin implementing activities that fall within a minimum standard program such as having a code of conduct, the good news is that even in the early stages, these efforts can have a profound effect.

According to our research, when a minimum standard program is present, employees are:

- More than **2X** likely to report suspected wrongdoing to management;
- Almost **4X** as likely to express satisfaction with their company's response to their reporting; and,
- More than **4X** as likely to say that they work in a strong ethical culture.

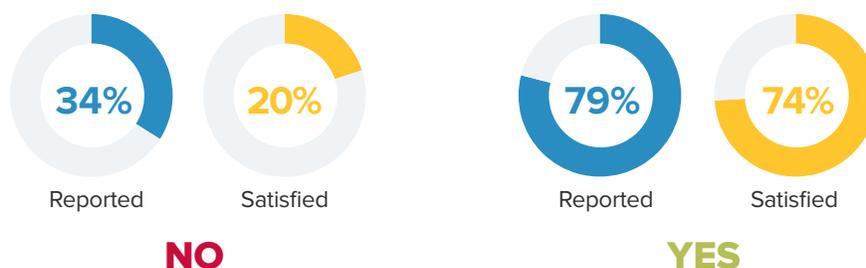
HOW DO WE DEFINE AN E&C PROGRAM?

The following are measures of program quality utilized in the GBES:



A MINIMUM STANDARD PROGRAM LEADS TO GREATER REPORTING AND SATISFACTION WITH REPORTING

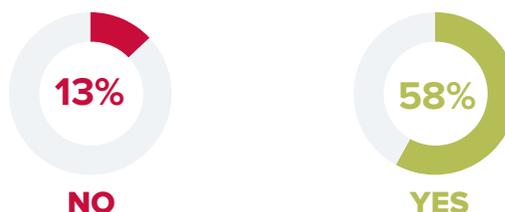
Is a Minimum Standard Program in Place?



EMPLOYEES WHO REPORTED MISCONDUCT AND WERE SATISFIED WITH THE PROCESS

A MINIMUM STANDARD PROGRAM LEADS TO A STRONGER CULTURE

Is a Minimum Standard Program in Place?



STRONG OR STRONG LEANING CULTURE

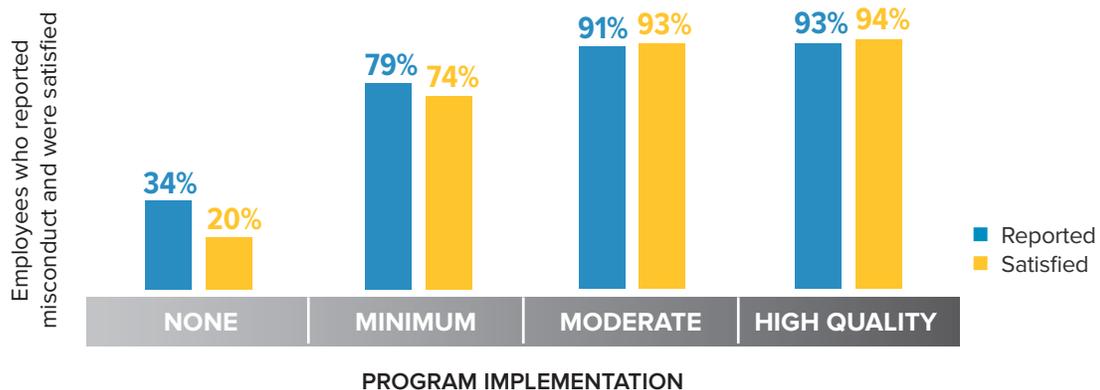
Because even minimum standard programs do yield encouraging results, if the task of E&C in an organization is a substantial undertaking, leaders will sometimes determine that this type of program may be sufficient. But the findings from the GBES data reveal that much more can be done to build upon minimum standards, and the results go a long way in strengthening the E&C culture and ethics outcomes within the organization.

E&C PROGRAM QUALITY MATTERS

A minimum standard program is significantly outperformed by an E&C program of a higher quality based on our research. As program quality is enhanced, even more improvements are seen. While every organization will need to determine what elements of program quality work best within their context, our research has found that moving along the continuum from a minimum standard program to a high quality program can yield substantial returns.

Additionally, as the quality of an E&C program increases in an organization, so too does the strength of the ethical culture.

PROGRAMS BEYOND THE MINIMUM STANDARD LEAD TO EVEN MORE REPORTING AND SATISFACTION WITH REPORTING



THE JOURNEY TO HQP



THE RETURN ON INVESTMENT FOR ADDING ELEMENTS OF HQPS IS SUBSTANTIAL

EVEN INCREMENTAL STEPS MAKE A DIFFERENCE.

In order to understand the impact of higher quality programs, we examined positive changes in employees' perceptions, actions and behaviors aligned to the 15 business objectives identified by the Blue Ribbon Panel. Incorporating these business objectives yields great progress in achieving meaningful changes in ethics outcomes. The existence of favorable outcomes is measured when employees "see, hear and feel" the elements of an HQP.

From the perspective of employees, when they feel that their company:

- Provides positive feedback for ETHICAL CONDUCT, favorable ethics outcomes increased **10X**;
- RESPONDS IN A TIMELY MANNER after the reporting of misconduct, favorable ethics outcomes increased **16X**; and,
- Expects that business decisions are TIED TO ORGANIZATIONAL VALUES, favorable ethics outcomes increased **27X**.

15 HIGH QUALITY PROGRAM BUSINESS OBJECTIVES

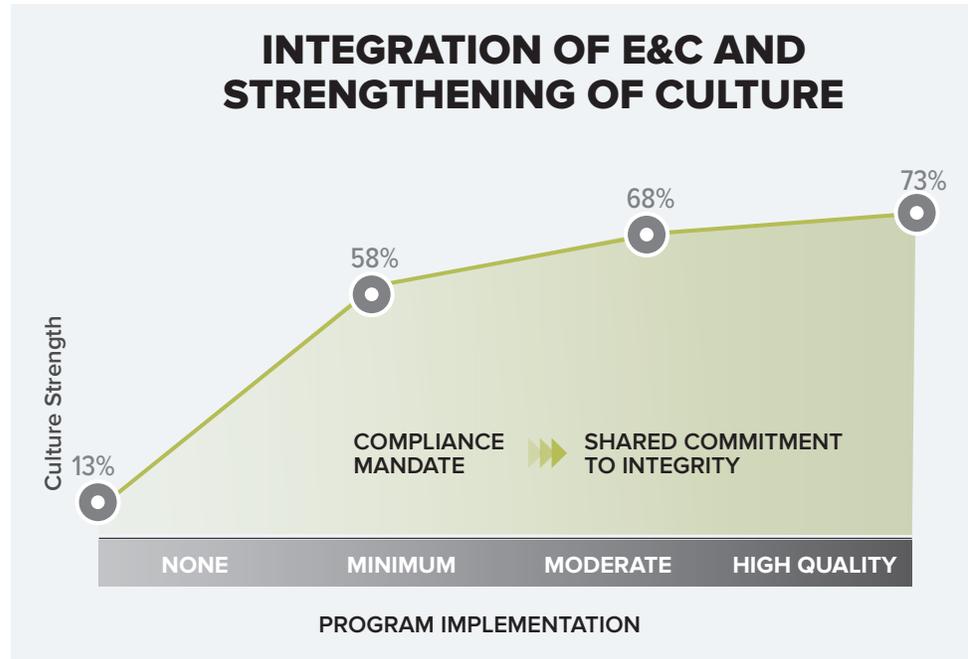
- 1 Leaders are expected and incentivized to personally act with integrity.
- 2 Values and standards are clearly communicated.
- 3 Leaders are assigned responsibility for identifying and mitigating E&C risks.
- 4 Leaders create an environment where employees are empowered to raise concerns.
- 5 The E&C program aligns with the larger objectives of the business.
- 6 All employees are expected to act in line with company values, and held accountable if they do not.
- 7 Employees are provided guidance and support for handling key risk areas.
- 8 Resources are provided to support employees in ethical decision-making.
- 9 Disciplinary action is consistently taken against violators
- 10 Investigations are objective, consistent, and fair to all parties.
- 11 The organization directly communicates with individual reporters.
- 12 The organization provides broad and varied avenues for reporting.
- 13 Proactive processes are created to prevent retaliation.
- 14 The organization appropriately discloses wrongdoing to authorities.
- 15 Key risk areas are identified through a robust assessment process.

WHY HQPs HAVE A BIGGER IMPACT

We have established that program quality matters. The question is why it matters. It comes down to culture. The relationship between an E&C program and the culture of an organization is critical.

IN HQPs, ETHICS & COMPLIANCE IS THE CULTURE.

An HQP is characterized by a broader view about the purpose of the E&C program, and shared responsibility amongst leadership for its implementation. Where a minimum standard program is focused on rules and mandates compliance, HQPs emphasize core ethical values in decision-making. In a minimum standard program, accountability is given to a compliance department. In an HQP, leaders across the business own and are accountable for E&C in their operations. Employees' E&C perceptions, actions and behaviors are impacted ultimately as a result.



Past GBES studies have shown that leaders and managers are the biggest drivers of E&C culture within an organization. Therefore, as these individuals own and prioritize the activities of an HQP, the program becomes the culture of the organization. This yields big results in the form of favorable outcomes, such as employees feeling that they can raise concerns without fear of retaliation.

CONCLUSIONS & RECOMMENDATIONS

The data is clear. A genuine effort by an organization to address E&C can have a substantial effect on the overall strength of the E&C culture and outcomes. Leaders should not be satisfied if their organization has implemented a minimum standard (compliance) program. Organizations with high quality programs (HQPs) go much further in building a strong ethical culture, reducing misconduct, and increasing employee reporting when wrongdoing does occur.

The following are recommendations for leaders who would like to get started in building an HQP.

ORGANIZATIONS WITH AN E&C PROGRAM

Once a program is in place, working towards a higher level of quality generally involves moving the responsibility, message, and accountability for E&C to leaders across the organization. When executives and managers recognize and own their role in shaping the conduct of the organization, E&C becomes a part of the culture. Some of the business objectives of an HQP are more impactful than others; therefore, they can provide a good place to start. These include:

- Leaders create an environment where employees are empowered to raise concerns;
- E&C program aligns with the larger objectives of the business;
- All employees are expected to act in line with company values, and held accountable if they do not;
- Employees are provided guidance and support for handling key risk areas; and,
- Investigations are objective, consistent, and fair to all parties.

ORGANIZATIONS WITH NO E&C PROGRAM

There are several foundational steps that are important when getting started with an E&C program. These include:

- The establishment of a set of core ethical values and written standards of conduct;
- Employee training on the values and code; and,
- Establishing a means for anonymous reporting of suspected wrongdoing.

A helpful reference for identifying priorities for the first phase of an E&C program can be found in the US Federal Sentencing Guidelines, or FSGO. Chapter 8 of FSGO outlines seven elements of an “effective” E&C program. These elements are key to a minimum standard compliance program, and practices of a similar nature also appear in other global frameworks.

To learn more about the objectives, best practices, and potential pitfalls to avoid in creating an HQP, refer to the report of ECI’s Blue Ribbon Panel: Principles and Practices of High Quality Ethics & Compliance Programs (HQPs). The report is available at www.ethics.org/hqp-standards. Additionally, ECI has developed a High Quality Program Self-Assessment Tool to help an organization assess the current level of quality of its E&C program. Benchmarks to other organizations are provided.

METHODOLOGY

The results discussed in this report are based on data collected from 5,101 employees who completed ECI's 2017 Global Business Ethics Survey. Employees were randomly selected to attain a sample representative of U.S. employees. All survey respondents were:

- 18 years of age or older;
- Currently employed;
- Working at least 20 hours per week for their primary employer; and,
- From companies with a staff of at least two or more.

Data were collected through an online survey from November – December 2017. The survey questions and sampling methodology were established by ECI; data collection was managed by Precision Sample. Analysis by ECI was based upon a framework provided by the Federal Sentencing Guidelines for Organizations, the Sarbanes-Oxley Act of 2002, and in-house expertise in defining elements of ethics programs, culture and outcomes. The sampling error of the findings presented in this report is +/-1.4% at the 95% confidence level.

Providing the research and tools your E&C program needs.

As an ethics and compliance professional, you know the importance your work brings to your organization. You know that having a strong culture and well-performing ethics program brings positive change to your team and bottom-line ROI to your C-suite.

We know how important it is too.

That's why our work providing research, events and networking opportunities has been utilized by our members across the globe in helping them shape their programs, stay current with the latest shifts in the industry and network with colleagues that do what you do every day.

Connect with ECI today to see why your ethics and compliance peers trust us to help grow and sustain their programs. Contact Tia Berry at tia@ethics.org.

BECOME A MEMBER

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APPENDIX A

EMPLOYEE PERCEPTIONS ABOUT THE EXISTENCE OF HQP ELEMENTS IN THEIR ORGANIZATION AND THE IMPACT ON FAVORABLE ETHICS PROGRAM OUTCOMES

OBSERVED HQP ELEMENTS	DOES NOT EXIST	EXISTS	IMPACT ON FAVORABLE OUTCOMES
Company Expects Employees to Consider E&C Standards and Values when Making Business Decisions*	1%	39%	27X
Company Responds in a Timely Manner after Reporting	3%	45%	16X
Top Management Encourages Speaking Up Even with Bad News	3%	46%	14X
E&C Training Addresses Actual Risks	3%	45%	14X
Supervisor Consistently Holds Employees Accountable	3%	44%	12X
Company Encourages Employees to Use E&C Standards and Values when Making Business Decisions	4%	41%	11X
Company Addresses Violations That Could Harm Clients/ Customers	4%	41%	11X
Supervisor Gives Positive Feedback for Following E&C Standards and Values	4%	44%	10X
Supervisor Gives Positive Feedback for Ethical Conduct	4%	45%	9X
Management Keeps Employees Informed After Reporting	6%	57%	9X
Management Addresses Risks in Employees' Work	5%	45%	8X
E&C Training Provides Useful Guidance	4%	41%	8X
Company Does Not Retaliate Against Employees Who Report	5%	49%	8X
Management Understands Risks in Employees' Work	5%	43%	8X
Performance Goals Are Reasonable	5%	43%	7X
Top Management Talks About Risks	6%	46%	7X

* For example, for the HQP Element, "THE COMPANY EXPECTS EMPLOYEES TO CONSIDER E&C STANDARDS," of those respondents who indicated that this element does not exist, 1% observed favorable ethics outcomes. By comparison, for the same HQP Element, of those respondents who indicated that this element does exist, 39% observed favorable ethics outcomes. This tells us that the impact of this HQP Element on favorable ethics program outcomes is 27X greater. Refer to Appendix B for a list of the Favorable Ethics Program Outcomes used in this analysis.

Company Checked on Employees After Reporting	7%	54%	7X
Promotion Requires Ethical Conduct	6%	46%	7X
Management Explains What Will Be Done with Report	6%	48%	7X
Supervisor Talks about Risks	6%	45%	7X
Employees Understand Results after Reporting	6%	44%	7X
Management Explains How Policies Link to Values	6%	44%	7X
Employees Provided Information on Retaliation after Reporting	8%	55%	6X
Management Apprises Employee of Response to Report	7%	50%	6X
Company Reports Violations to Authorities	7%	48%	6X
Leaders Talk Regularly About Ethics	8%	49%	5X
Company Explains Reporting Procedure/Process	7%	38%	5X
Bonuses Based on Ethical Conduct	9%	49%	4X
Management Talks About Company Issues	10%	49%	4X
Company Explains Post-Reporting Procedures	9%	45%	4X
Ethics Regularly Discussed in Team Meetings	10%	45%	3X
Senior Leaders Visible During E&C Training	11%	44%	3X
Written Standards in Multiple Formats	11%	42%	3X
Company Explains What Retaliation Looks Like	11%	40%	3X
Presence of E&C Training	11%	37%	2X
E&C Training Used Cases/Roles/Dilemmas	13%	46%	2X
E&C Standards List Consequences for Misconduct	12%	40%	2X
Presence of E&C Advice Resources	14%	40%	2X
Office Dedicated to E&C	14%	39%	2X
Company Shares Info about Workplace Ethics	18%	48%	2X
Management Talks about Bonuses and Awards	24%	61%	2X
Presence of Discipline	15%	35%	1X
Presence of E&C Hotline	15%	36%	1X
Presence of E&C Written Standards	16%	37%	1X

APPENDIX B

FAVORABLE ETHICS PROGRAM OUTCOMES

ETHICS PROGRAM OUTCOMES

1. Employees do not bend the rules.
2. My supervisor shares information about what is going on in the company.
3. After talking with my supervisor, I feel heard.
4. Top management is open and honest about critical issues that impact the company.
5. Top management shares information about what is going on in the company.
6. Top management keeps their promises and commitments.
7. Employees understand our company's core values.
8. I can identify situations that could lead to ethics violations in the company.
9. I am prepared to handle situations that could lead to ethics violations in the company.
10. I seek guidance from colleagues/company resources when I am unsure of what ethical action to take.
11. I feel like I can raise concerns to my supervisor's boss without fear of retaliation.
12. Employees can question the decisions of management without fear of retaliation.
13. Employees can raise concerns without fear of retaliation from co-workers.
14. After reporting misconduct, I would report again.
15. After reporting misconduct, I feel I was treated fairly.
16. After reporting misconduct, the resolution was appropriate.
17. After reporting misconduct, I was satisfied with the company's response.

OUR FUNDERS

We are grateful to the following companies whose generosity has made this report possible:



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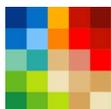
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with installments following in
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