

LRN Ethics Study:
The Effect of Ethics on Ability
to Attract, Retain and Engage
Employees

workforce engagement

TABLE OF CONTENTS

01 Executive Summary

02 Detailed Findings

- > A company's ethics affects its ability to attract, retain and engage employees.
- > Employees would trade additional pay to work for a company with ethical business practices.
- > A large number of employees have left a job over ethical issues.
- > American workers generally give their employers positive ratings for ethical conduct, yet one-in-four have witnessed unethical behavior.
- > The vast majority of employees who experience unethical behavior on the job are affected by it.
- > A large number of employees receive unethical e-mail at work.

09 Implications for Businesses

10 Engaging Employees in Ethics and Compliance

11 Survey Methodology

11 About LRN

Whether a company acts ethically is a significant factor in the average American's willingness to work for an employer, according to independent research by LRN. An overwhelming majority of employees recently surveyed – 94 percent – say it is “critical” or “important” that the company they work for is ethical. Ethics is such an important consideration, in fact, that 82 percent said they would prefer to be paid less and work for a company with ethical business practices than receive higher pay at a company with questionable ethics. Further, one in three employed Americans have left a job for ethical reasons.

These are among the key findings of the LRN Ethics Study, an opinion research study conducted by Opinion Research Corporation. The purpose of the research was to gain an understanding of the impact that corporate ethics and the ethical health of companies' cultures have on the decisions and actions of average Americans and on the business success of companies as a result. Survey results are based on telephone interviews conducted June 22-26, 2006, among a sample of full-time American workers, age 18 or older.

OTHER FINDINGS INCLUDE:

- > More than half of U.S. workers (56 percent) say their current company has an ethical culture. Yet one-in-four say that in the past six months they have witnessed unethical, and even illegal, behavior where they work. These behaviors include: witnessing a colleague acting unethically, illegally or in a harassing or discriminatory manner; and receiving unethical e-mails on the job.
- > The most common ethics-related reason for leaving a company is disagreement with the ethics of fellow employees, a supervisor or management (80 percent). In addition, 21 percent felt pressure to engage in illegal activity.
- > Very few of those who experienced unethical behavior on the job say they were not affected by it (11 percent). Actions taken by those who were affected include: talking about the behavior with colleagues while on the job; feeling distracted on the job; talking with friends and family about the behavior; and speaking with management or making a formal complaint.

detailed findings

A COMPANY'S ETHICS AFFECTS ITS ABILITY TO ATTRACT AND RETAIN EMPLOYEES.

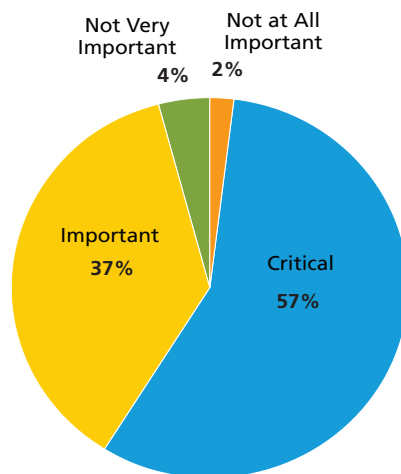
Employees want to work for ethical companies.

LRN ETHICS STUDY: HOW IMPORTANT IS IT FOR YOU TO WORK FOR A COMPANY THAT YOU BELIEVE IS ETHICAL?

The LRN Ethics Study confirms that a company's reputation for ethical behavior matters a great deal to employees. An overwhelming majority of employees surveyed – 94 percent – say it is “critical” or “important” that the company they work for is ethical. Of the 94 percent of workers who said ethics was central to their satisfaction with an employer, more than half (57 percent) say it is “critical” that they work for a company they believe to be ethical while 37 percent described it as “important.”

Women, American workers in the South and West, as well as the most affluent and best-educated respondents were the most likely to say that it is critical to work for an ethical company. In addition, two-thirds of those in professional and managerial occupations (68 percent) said employer ethics are critical to them, compared with 53 percent of sales and clerical employees and 45 percent of blue-collar workers.

These figures are not terribly surprising. Most people want to work for companies they are proud of, and this includes a belief that the company is ethical. The distinction in importance is somewhat striking in terms of geography. There may be a number of potential factors at play including the shift in populations and the culture of certain geographic regions.

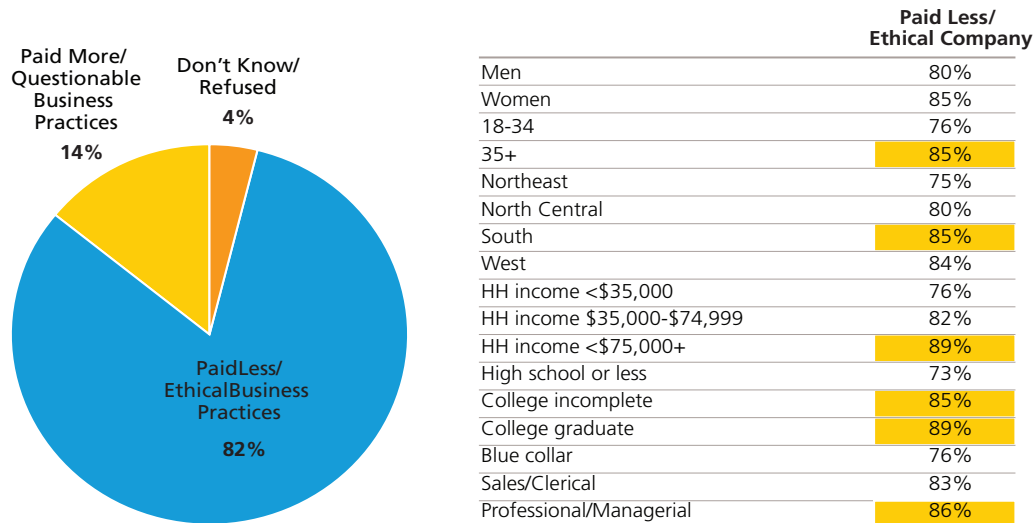


	Critical
Men	53%
Women	63%
18-34	52%
35+	59%
Northeast	48%
North Central	54%
South	61%
West	62%
HH income <\$35,000	46%
HH income \$35,000-\$74,999	54%
HH income <\$75,000+	70%
High school or less	42%
College incomplete	54%
College graduate	72%
Blue collar	45%
Sales/Clerical	53%
Professional/Managerial	68%

Employees would trade additional pay for ethical business practices.

LRN ETHICS STUDY: WOULD YOU PREFER TO WORK FOR A COMPANY THAT PAID MORE BUT HAD QUESTIONABLE BUSINESS PRACTICES OR THAT PAID LESS BUT HAD ETHICAL BUSINESS PRACTICES?

Ethics are so important to employees that 82 percent said they would prefer to be paid less but work for a company with ethical business practices than for one that offered higher pay but had questionable practices. This finding held true for every subgroup surveyed (e.g., men/women, position type, geographical region, education and income level). Still, respondents who were older, better educated, more affluent and employed in professional and managerial occupations were the most likely to say employer ethics were more important than additional compensation.

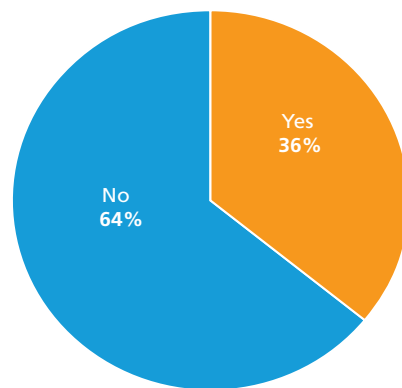


More than one-third of employees have left a job over ethical issues

LRN ETHICS STUDY: HAVE YOU EVER LEFT A JOB BECAUSE YOU DISAGREED WITH THE COMPANY'S ETHICAL STANDARDS FOR DOING BUSINESS?

Employees also indicated a willingness to protest when dissatisfied with a company's ethical standards. More than one-in-three Americans employed full time (36 percent) have left a job because they disagreed with the company's ethical standards for doing business. Moreover, this finding held generally true across all demographic subgroups. Workers in the West, however, were the most likely to have left a company because of concerns about a company's ethical standards (43 percent), and Americans living in rural areas are more likely than those in metropolitan environments to leave over ethical differences, 43 percent versus 34 percent, respectively.

Employee turnover costs due to ethics issues are potentially alarming. Estimates of turnover costs range from 25 percent to almost 200 percent of an employee's annual compensation depending on the position. Therefore, the fact that one-in-three workers have left a job for ethical reasons bolsters the contention that companies can significantly reduce costs associated with turnover and lost productivity by fostering an ethical corporate culture.



	Left Job
18-34	34%
35+	37%
Northeast	29%
North Central	32%
South	37%
West	43%
Metro	34%
Non-Metro	43%
High school or less	28%
College incomplete	53%
College graduate	35%
Critical to work for ethical company	42%
Not critical	28%

Employees have varied ethical reasons for leaving a job

LRN ETHICS STUDY: WHAT WERE THE ETHICAL REASONS FOR LEAVING THE JOB?

Among employees who left a job for ethical reasons, 80 percent said they did not agree with the ethics of fellow employees, their supervisor or management. Nearly three-in-four (72 percent) say they left because they didn't think the company was acting according to its promises or corporate values. Two-thirds (67 percent) felt pressure to compromise their own ethical standards, and more than one-fifth (21 percent) felt pressure to engage in illegal activity. The latter is equal to 8 percent of all full-time employees in the U.S.

detailed findings

A COMPANY'S ETHICS AND THE ETHICAL HEALTH OF ITS CULTURE
AFFECT ITS ABILITY TO ENGAGE EMPLOYEES ON THE JOB.

American workers generally give their employers positive ratings for ethical conduct.

LRN ETHICS STUDY: HOW WOULD YOU DEFINE YOUR CURRENT COMPANY'S ETHICAL CULTURE?

A majority of full-time workers (56 percent) say that their current company embraces ethics and corporate values in everything they do. This is significant figure given the focus regulators and other corporate stakeholders place on a company's ability to foster a strong ethical corporate culture. In 2004, the U.S. Sentencing Commission heard testimony from LRN about the need for companies to foster ethical cultures instead of check-the-box, compliance-only approaches. These views helped shape the amendments to the Federal Sentencing Guidelines, which now call for companies to promote an organizational culture that encourages ethical conduct.

The remaining 46 percent express concerns about the ethical health of their cultures to varying degrees. For instance, about 30 percent of respondents believe their company merely follows the law and company policies. Four percent admit that they do what they are told and are not encouraged to ask questions about what is right and wrong, and 5 percent say they often see management and peers where they work acting in questionable ways. Those with a college education are far more likely than those with less education to say their current company embraces ethics and corporate values in everything they do.

LRN defines four stages of culture ranging from anarchy, to blind obedience, to informed acquiescence, with self-governance as the ideal culture. In self-governing cultures employees and management do the right thing in the absence of oversight and self-govern based upon shared principles and values.

The LRN Ethics Study indicates that companies are moving up the cultural ladder to the self-governing ideal. In a self-governing culture, not doing the right thing is not a betrayal of the company but a betrayal of oneself. If you get people to share in ethics, values, beliefs and trust, they do the right thing because in doing so they are honoring themselves. In a self-governing culture, employees and management are inspired by a common mission, operate transparently and are proactive and vigilant in self-regulating their own actions and behaviors and those around them.

A high number of employees have recently witnessed unethical conduct.

LRN ETHICS STUDY: IN THE PAST SIX MONTHS, HAVE YOU SEEN ANY OF THE FOLLOWING ON THE JOB?

Although more than half of employees gave their companies high praise for their ethics, one-fourth of those employed full time (25 percent) say that in the past six months they have witnessed a colleague acting unethically (18 percent), illegally (7 percent) or in a harassing or discriminatory manner on the job (14 percent). Research done by the Ethics Resource Center (ERC) has demonstrated that there are three factors that are predictors of employee misconduct: pressure to perform, observed misconduct and dissatisfaction. Considering that the Bureau of Labor Statistics estimated the number of full-time workers at more than 119 million in June 2006, the scope of this finding is significant, suggesting that tens of millions of employees have encountered unethical behavior on the job in the past few months. This finding also underscores the tremendous opportunity for employers to improve and foster stronger ethical cultures.

Many employees witness unethical behavior often.

LRN ETHICS STUDY: HOW OFTEN DO YOU ENCOUNTER THIS TYPE OF BEHAVIOR ON THE JOB?

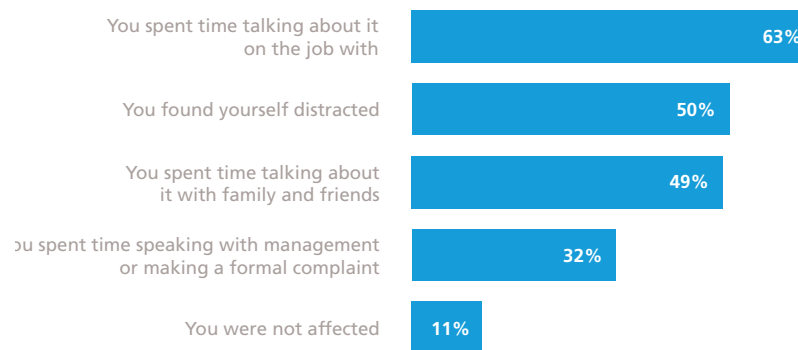
Asked about the frequency with which unethical behavior occurs, one-quarter of respondents say it happens as often as daily (12 percent) or weekly (13 percent) – adding strength to the finding that unethical activity in the workplace is fairly commonplace in many workers' experiences. Again, when applied to the Bureau of Labor Statistics, the number of employees witnessing unethical behavior weekly or more is staggering, again in the tens of millions.

The vast majority of employees who experience unethical behavior on the job are affected by it.

LRN ETHICS STUDY: HOW DID THAT INCIDENT AFFECT YOU?

Besides affecting a company's ability to recruit and retain employees and increasing the legal, regulatory and compliance risks a company faces, unethical behavior has a direct impact on employee productivity. Very few of those who experienced unethical behavior on the job – only 11 percent – say they were not affected by it. Of those who were affected by such behavior, nearly one-in-three (32 percent) went so far as to speak with management or make a formal complaint, suggesting good news for companies that encourage employees to raise ethical issues in the workplace. LRN has found that employees are more likely to report suspected problems when employers encourage them to do so by emphasizing ethical behavior and supporting their efforts to report issues through the use of helplines and other tools.

Other actions taken by employees in response to unethical behavior include: 63 percent spent time talking about it on the job with colleagues; 50 percent said they found themselves distracted; and 49 percent spent time talking to friends and family about the behavior. The last point may be troubling to some organizations, which have observed the business impact that an unethical incident can have when discovered by corporate stakeholders outside of an organization before disciplinary action or corrective measures are implemented to resolve the issue.



More than one-third of employees receive unethical e-mail at work.

LRN ETHICS STUDY: HOW OFTEN DO YOU RECEIVE WHAT YOU BELIEVE TO BE UNETHICAL E-MAIL ON THE JOB, OTHER THAN SPAM?

Although many companies now have policies in place to govern e-mail and Internet usage – specifically, policies that prohibit the distribution of inappropriate or offensive e-mail – more than one-third of respondents (35 percent) said they receive unethical e-mails on the job, not including “spam” type e-mails. Eight percent said they receive unethical e-mail at least daily and often more than once a day (5 percent).

A majority of employees who receive unethical e-mail on the job ignore it (75 percent). The most common action taken by those who did something was to speak personally to the colleague who sent the e-mail (22 percent); asking a supervisor or management to get involved (13 percent); sharing the e-mail with a colleague (11 percent); and forwarding the e-mail to someone outside the company (6 percent). Four percent admitted to responding to the e-mail but said they later regretted doing so.

Interestingly, professional and managerial employees were the most likely employee group to ignore unethical e-mails received at work. According to the survey, 81 percent of white-collar employees did nothing in response to such e-mails, compared to 55 percent of blue-collar workers who ignored the messages. Moreover, the survey found that professional and managerial employees are less likely to speak to a colleague about unethical e-mail – only 17 percent acknowledged doing so, compared to 27 percent for sales/clerical employees and 29 percent for blue-collar workers.

The apparent reluctance of professional and managerial employees to take action in response to unethical e-mail could mean that either they do not perceive it as a significant problem or perhaps feel uncomfortable taking a stand against such e-mail. Both possible explanations suggest that companies may not be doing an adequate job of communicating and enforcing e-mail usage policies. The relatively high incidence of unethical e-mail in the workplace – and the inclination of many employees to ignore it – also suggests that companies can do more to foster and enable an ethical corporate culture.

Implications for Businesses

While doing the right thing is and always should be its own reward, there are real financial benefits for employers to embrace ethics in the workplace. An ethical climate can reduce costly employee turnover as well as provide an incentive for employees to stay where they are when tempted by more lucrative but more ethically challenging work elsewhere.

To reap these benefits employers need to ensure that they tighten their ethics practice and focus on cultivating an ethical corporate culture. This requires an equal focus on inspiring both white-collar and blue-collar workers. Programs must be tailored to meet the needs of employees in personal and meaningful ways so that they embrace the principles behind the effort and internalize ethics into their decision making on the job. Further, the distracting power of ethical lapses can create friction, dissonance and distraction that can get in the way of productivity. A significant percentage of employees witness unethical behavior on the job, and most are affected in some way by the behavior. It is important for companies to not only create programs and mechanisms to prevent ethical lapses but to do the same to effectively detect, respond, root cause and correct ethical lapses in consistent and timely ways.

LRN's experience, which is validated by these findings, demonstrates that companies that take steps to create ethical, self-governing organizations experience stronger relationships with partners, customers and employees. This is a direct result of increased trust fostered when organizations deliver on their promises consistently. These companies also experience reduced costs associated with legal and regulatory noncompliance, increased revenue and shareholder value through stronger customer loyalty and enriched reputations.

Applying the Findings

To illustrate the significance of the problem, one needs only to apply these findings to those of the Bureau of Labor Statistics and other organizations that track the movements of employees.

The number of full-time employed Americans, as of June 2006, according to the Bureau of Labor Statistics is roughly 119 million. If you apply the LRN Ethics Study findings to this number, the scope of the problem is staggering, with close to 30 million people having witnessed unethical behavior on the job in the past six months, and roughly 9 million people doing so on a weekly basis.

The LRN Ethics Survey was not designed to uncover the cost of turnover due to ethical reasons, however, by creating a mock scenario, one can gain a sense of the size of the problem. Utilizing the workforce statistics from the Bureau of Labor Statistics and assuming that the one-in-three workers each made the average salary of the American worker of \$40K, according to Salary.com 2006 statistics, and using the low-end cost estimate for employee turnover of 20 percent of an employee's salary, one finds that the potential cost of turnover due to ethical reasons could reach into the trillions of dollars. Of course, this is not a fact-based scenario but begins to net out the potential costs of an unhealthy corporate culture to businesses.

Engaging Employees in Ethics and Compliance

With so many business priorities competing for the attention of managers and employees, companies are challenged to truly engage employees as active promoters and guardians of an ethical culture. LRN offers these suggestions to help companies engage their workforce as part of fostering an ethical corporate culture:

1. DEMONSTRATE THE IMPORTANCE OF ETHICAL CONDUCT.

“Tone at the top” is no longer enough. What is more important is how management’s actions reflect the company’s values and principles. The decisions, actions and behaviors of management speak volumes about the value a company places on ethical conduct. Communications, for instance, about ethics should not be a once-a-year event. Rather, they should be an outcome of viewing ethics as a business strategy, and like all business strategies, should be reinforced consistently so that the standard of conduct the company expects can be internalized within the company’s culture. Aligning promotions, raises and other incentives with corporate values provides another opportunity to reinforce that the company embraces ethics and doing the right thing in all it does.

2. RAISE EMPLOYEES’ ETHICAL IQ THROUGH EDUCATION.

Education programs should teach employees about ethical, legal and compliance issues they may encounter in carrying out their responsibilities. What is even more important is to help employees recognize potentially problematic situations, including those that may be outside the scope of common business scenarios. The goal of any education initiative should be to foster an environment that encourages and embraces ethical decision making by providing real-world opportunities for employees to wrestle with ethical dilemmas. Education can only be additive to a company’s ability to foster a strong ethical culture when it is additive to the role and job function of every individual conducting business on behalf of the company, including directors, executives, partners and joint ventures.

3. FOSTER ETHICAL LEADERSHIP AT EVERY LEVEL.

It is essential to inspire employees to internalize ethical decision making. This requires the development of an environment where employees are encouraged to talk openly about ethical dilemmas. Research performed by Penn State University, and funded by the ERC Fellows Program, has identified the most influential ethical role model in an organization as the individuals’ immediate supervisor. Therefore, it is important to encourage an environment where an employee can just as easily turn to the colleague in the next cube or their immediate supervisor as the ethics and compliance office for advice on how to handle a tough ethical decision, where the right or wrong answer is not always clear. An ethical leader is one that does what is right in the absence of oversight and is one that ensures that a climate of right behavior flourishes. Fostering a culture of ethical leaders relies upon engaging employees in ethics so that there is a common understanding that “how” business gets done is more important than that it gets done.

Survey Methodology

- The LRN Ethics Study was conducted from June 22-26, 2006.
- Methodology used to collect survey responses involved asking a series of questions on the CARAVAN omnibus surveys from Opinion Research Corporation (ORC).
- Results are based on telephone interviews conducted among a sample of 834 American adults (495 men and 339 women).
- Respondents were full-time employees, age 18 or older and representing every geographic region and state, except Hawaii and Alaska.
- The geographic region defined as the North East includes New England and the Middle Atlantic – New York, New Jersey and Pennsylvania.
- The North Central region includes Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska and Kansas.
- The South includes Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma and Texas.
- The West includes Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon and California.
- Interviews were weighted to ensure reliable and accurate representation of the total adult population.
- The margin of error at a 95 percent confidence level is plus or minus 3.4 percentage points.

About LRN

LRN provides governance, ethics and compliance management solutions that inspire, reinforce and set higher standards for ethically aware, responsible conduct in organizations throughout the world. The company works with leading companies, including The Dow Chemical Company, DuPont, Johnson & Johnson, Pfizer, Procter & Gamble and Raytheon. Our Governance and Ethics Management System™ (GEMS™) offers global corporations an integrated solution for corporate governance, risk, ethics and compliance management. GEMS™ includes our flagship Legal Compliance and Ethics Center™ (LCEC®), a web-based education solution. LCEC® offers more than 200 courses, covering more than 3,600 topics, and has helped millions of employees around the world act more responsibly, work more productively and become better informed about the laws and values that govern their day-to-day decision making. Our decade long record in Expert Legal Research and Analysis delivers unparalleled legal research at significant cost savings to leading legal departments around the world. More information is available at www.lrn.com.



1100 Glendon Avenue
Los Angeles, CA 90024-3503
toll free: 800.529.6366
local tel: 310.209.5400
fax: 310.209.5401