

Ethics and Employee Engagement



## This report was a joint project of the **Ethics Resource Center**

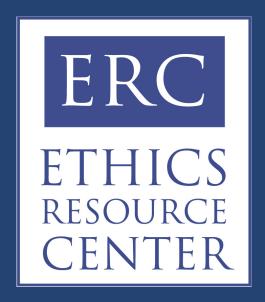
and

Hay Group,

a global management consulting firm



www.haygroup.com



Founded in 1922, the Ethics Resource Center (ERC) is America's oldest nonprofit organization devoted to the advancement of high ethical standards and practices in public and private institutions. For 87 years, ERC has been a resource for public and private institutions committed to a strong ethical culture. ERC's expertise also 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.

For information about the National Business Ethics Survey, see page 7.

## **Ethics and Employee Engagement**

The recent recession was a jarring reminder that efficiency and effectiveness are essential to the survival of any organization and that employee engagement—the commitment employees feel toward their employing organization—is a critical part of the equation. Engaged employees recommend their company to friends and family, take pride in working there, and intend to stay with the company. They are also willing to go the extra mile for their organization, making it possible for the company to do more with less. And because they can be counted on to make independent decisions and take action in ways that are consistent with the company's culture, objectives, and values, they require less supervision and direction and adapt easily to changing roles and responsibilities.

Recognizing that engaged employees are vital for organizational success, more and more leaders are asking: "How can we increase the level of employee engagement?" "What actions and decisions decrease engagement and should be avoided?" "With limited resources to invest in salaries and benefits during these tough times, what else can I do to increase engagement?"

Fortunately for executives whose resources are already stretched thin, employee engagement is heavily influenced by factors that have nothing to do with money: the overall purpose of the organization, trust and confidence in senior leaders, and the amount of recognition employees receive. It's not that money doesn't matter. It's just that money tends to be a "deficiency need." If employees feel that they are significantly underpaid—that their pay does not reflect their contributions to the organization—their motivation is likely to suffer. But when it comes to encouraging employees to pour discretionary effort into their work and deliver superior performance, the chance to contribute to something larger than themselves and be recognized for it is likely to provide a much stronger incentive.

Experience and common sense tell us that a company's ethics are an important factor in employee engagement, but little research has been done to confirm this view. Using data from the Ethics Resource Center's 2009 National Business Ethics Survey (NBES), researchers from ERC and the Hay Group explored the relationship between company ethics and employee engagement in order to answer several key questions:

- Does ethical culture play a part in employee engagement?
- Does management's commitment to ethics impact employees' engagement with the company as a whole?
- Does misconduct undermine employee motivation?
- Do engaged employees respond differently to observations of misconduct?

#### **FINDING 1:**

Positive perceptions of an organization's ethical culture are associated with higher levels of engagement. Furthermore, management's commitment to ethics is particularly important for employee engagement.

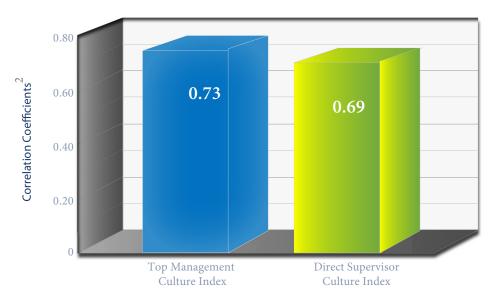
Ethical culture is the extent to which an organization's ethical standards are given priority and promoted by its management, employees, policies, processes, and decision-making. Basically, the ethical culture formally and informally teaches employees "how things are really done around here." The more employees see others being held accountable for ethical actions and acting with integrity, the stronger the ethical culture of the organization will be. In order to assess the strength of an organization's ethical culture, the Ethics Resource Center has developed indices to measure employees' perceptions of their peers, direct supervisors, and senior leadership. Prior ERC research has shown that stronger scores on these indices lead to reductions in pressure to commit misconduct, fewer observations of misconduct, increased reporting of observations, and decreased retaliation against whistle-blowers.

Analysis of 2009 NBES data shows that strong scores on the ethical culture indices are also linked to

stronger employee engagement scores. The actions of management are especially powerful. The strongest correlations between employee engagement and ethical culture involve the Top Management Culture and Supervisor Culture Indices, which measure employee perceptions of each group's commitment to open and honest communication, positive ethical role modeling, and accountability.

Past research has similarly shown that confidence in leaders is a strong engagement predictor. Today's employees recognize that their prospects for continued employment, career development, and advancement depend on their companies' health and stability. And they cannot be expected to bind their futures to those of their employers unless they are confident that their companies are well managed and well positioned for success. Analysis of 2009 NBES data highlights the particular importance of leaders displaying and emphasizing ethical behaviors.

#### Correlation Between Employee Engagement & Ethical Culture Management Indices (2009)



Ethical Culture Management Indices Correlations are significant at the 0.01 level

at the same rate and if A decreases B will decrease at the same rate. As the correlation coefficient approaches 1, it becomes closer to a perfect correlative relationship in which the two items always trend in exactly the same way. Note: In the graph above, all correlation coefficients are statistically significant at the 0.01 level.

<sup>1.</sup> Treviño, Weaver, Gibson and Toffler. (1999) Managing Ethics and Compliance: What Works and What Hurts. California Management Review, 41 (2).

<sup>2.</sup> Correlation coefficients define the degree to which two trends go together. A correlation coefficient of 1 between A and B equates to a perfect positive correlation, i.e., if A increases B will increase

#### **TAKEAWAY 1:**

Given the profound connection between a company's ethical culture and employee engagement, managers and supervisors should work actively to demonstrate a commitment to ethics, foster open communication, promote ethical role modeling, and encourage accountability.

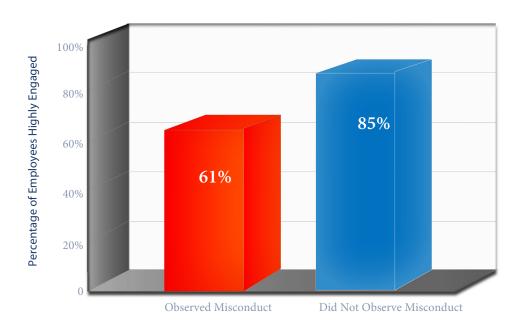
#### **FINDING 2:**

Employees who observed misconduct<sup>3</sup> were less engaged than those who did not. In addition, engaged employees are less likely to feel pressure to commit misconduct.

Analysis revealed that employees who observed conduct that violated company ethics standards, company policy or the law were less likely to be highly engaged. Only 61 percent of employees who witnessed misconduct displayed high levels of engagement, compared with 85 percent of those who did not witness wrongdoing.

Additional analysis showed a link between specific forms of misconduct employees observe and their levels of engagement. The 2009 NBES asked respondents to identify whether they had observed any of 27 specific types of company policy, regulatory or legal violations such as sexual harassment, contract violations, abusive behavior, substance abuse, etc. Then, looking at each specific violation, respondents who observed the violations were segmented based on whether they said they felt disengaged or engaged.

#### Level of Employee Engagement Based Upon Observed Misconduct (2009)



<sup>2009</sup> NBES respondents were asked about 27 specific behaviors. "Yes" respondents indicated that they had observed at least one of the behaviors in the previous 12 months.

Across all violations, 51 percent of employees said they were engaged and 49 percent said they were disengaged. However, certain violations were connected to higher levels of disengaged employees. Seventythree percent of employees who observed the bribing of a public official were disengaged, 67 percent who witnessed environmental violations were disengaged, 67 percent who saw the misrepresenting of financial records were disengaged, 60 percent who saw anticompetitive practices were disengaged, and 60 percent who observed insider trading were disengaged. Not surprisingly, these are the types of serious violations that tend to yield large fines, public scrutiny, and ruined reputations.

ERC research also has demonstrated that employees who perceive pressure to commit a violation are also very likely to observe misconduct in their workplace. Ethical culture is certainly one factor that can influence pressure. But, according to 2009 NBES data, pressure and employee engagement are also linked. Only 6 percent of engaged employees felt pressure to compromise company standards, compared with 18 percent of disengaged employees. In other words, disengaged employees were three times as likely to have felt pressure as their engaged peers.

#### **TAKEAWAY 2:**

Higher levels of misconduct and greater perceived pressure to commit a violation equate with lower levels of employee engagement. Therefore, in order to maintain high levels of employee engagement, leaders need not only to set an example but to carefully monitor and manage compliance with corporate ethics standards. All levels of management should be careful not to create work environments where employees perceive that hitting deadlines and meeting revenue goals are the priority regardless of how those goals are achieved.

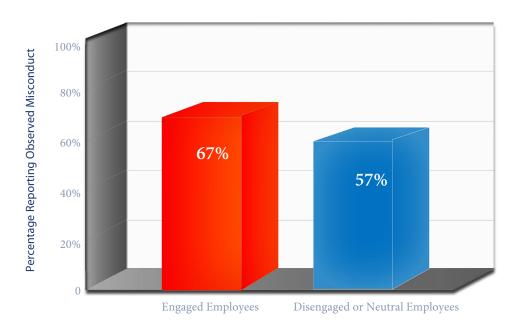
#### FINDING 3:

Engaged employees are more likely to report misconduct when they witness it, thus reducing the company's ethics risk.

When management is made aware of issues, those issues can be resolved. Hidden problems - especially unreported misconduct - put the company at risk for loss of reputation, decrease in customer/client satisfaction and loyalty, costly litigation, and even fines and other penalties. Misconduct that goes unreported can be a huge liability. As a result, ethics and compliance professionals put a great deal of effort and resources into encouraging reporting of observed misconduct.

In this context, it is worthwhile to know whether engaged employees respond differently to observations of misconduct than their disengaged peers. NBES study results showed that 67 percent of engaged employees who witnessed misconduct reported it, versus only 57 percent of other employees. Perhaps because of increased trust in leadership or a stronger commitment to the company's ideals and standards, engaged employees are more likely to report observations of misconduct.

#### Reporting of Observed Misconduct Based Upon Engagement Levels (2009)



#### **TAKEAWAY 3:**

Efforts to increase employee engagement can serve the parallel purpose of increasing reporting. HR and ethics and compliance professionals should work together to increase employee engagement, which would help to meet the objectives of both functions.

#### **CONCLUSION**

In investigating the relationship between company ethics and employee engagement, the Hay Group and the Ethics Resource Center have demonstrated that:

Employees' perceptions of company ethics do, in fact, impact their overall engagement. A positive impression of the company's ethical culture promotes employee engagement; misconduct erodes it. Actions and decisions, especially on the part of

- managers, that compromise the company's ethical standards also erode employee engagement.
- Engaged employees reduce ethics risk. They are more likely to react to misconduct by reporting their observations to an appropriate resource in the company, protecting the company by making management aware of problems that need to be addressed.
- *Many of the aims of the HR function* complement the work of the ethics and compliance function, and vice versa. When HR is effective in its efforts to promote employee engagement, it is simultaneously reducing the company's ethics risk. Meanwhile, when ethics and compliance professionals are successful in their attempt to nurture strong ethical culture, they are concurrently improving the level of employee engagement.

These findings have several implications for leaders who wish to increase productivity, decrease turnover, reduce misconduct, and lessen ethics risk:

- Adopt leadership training that highlights management behaviors, that will inspire and motivate employees to be highly effective and efficient—while upholding the company's ethical standards.
- Ensure that ethics resources such as hotlines/helplines, procedural justice systems, and standards of conduct - are available to management and employees and that those resources are effectively designed, implemented, and promoted.

- Encourage the human resources and ethics and compliance functions to coordinate efforts and initiatives to maximize the effectiveness of both roles.
- In order to identify areas of weakness and promote accountability, regularly assess both the level of employee engagement and the ethical culture of the company.
- Actively and overtly strive to make decisions and act in ways that promote employee engagement and demonstrate the importance of ethics and ethical standards.

### **ABOUT NBES**

The 2009 National Business Ethics Survey (NBES) is the sixth in a series of reports that began in 1994. NBES has grown into a mainstay of research on ethics in the American workplace.

NBES is the most exacting longitudinal research effort examining organizational 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 organizations to reveal real-life views of what is happening within organizations and the ethics risks they face.

Download the initial 2009 NBES report at www.ethics.org/nbes.

To sponsor additional supplemental reports, please contact ERC at 703.647.2185.





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