Business Ethics Briefing

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Surveys on Business Ethics, 2010

This Briefing looks at the findings of selected surveys on business ethics issues published and carried out in 2010.

PwC 'Tone from the Top' 2010 Survey

'Nearly 90% of survey respondents agree that Tone from the Top is critical in the effective mitigation of risk to their organisation around Fraud, Corruption and Ethical Behaviour'

This survey is based on responses from 144 individuals based in the U.K. that have responsibility for managing fraud, corruption and integrity risk to their organisation. The CEO is seen as the primary custodian of culture in the business. There is a disconnect however, between rhetoric and reality, with less than half of respondents saying that senior leadership act as role models in setting 'Tone from the Top'.

87% agree that culture contributes to the mitigation of risk around fraud, corruption and ethical behaviour, with 61% saying it improves the quality of decision making. 80% state that consistent and frequent communication is important in creating an ethical culture. However, only 63% consider that communication from management is done well. 77% of respondents say leadership teams have an articulated set of values and principles but only 36% regularly assess them for relevance and applicability.

'Tone from the Top' was undermined by inadequate sanctions for those involved in wrongdoing in 32% of cases, and by leadership's actions conflicting with ethical messages in 43% of cases. On the positive side, 23% reported that employees are recognised and rewarded when demonstrating ethical values and 27% report termination of a business relationship as a response to unethical behaviour.

Full report available at: http://tinyurl.com/4f754ef

Edelman Trust Barometer 2011 (Global)

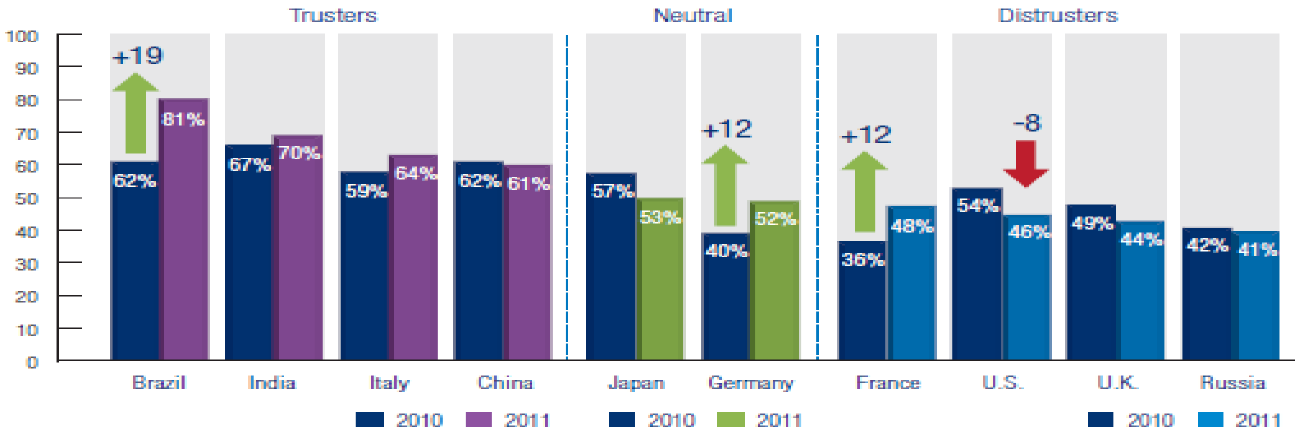
'Trust in business remains stable, trust in U.S. companies falls dramatically'

The 11th edition of the Edelman Trust Barometer interviewed 5,075 university-educated adults aged 25-64 across 23 countries. The phone interviews were conducted in 2010 and the beginning of January 2011.

The survey found that overall, trust in all institutions had risen globally, particularly in government. Globally, trust in business has risen due to increases in a number of emerging economies. In three of the BRIC economies, trust in business remained high with Brazil, India and China (81%, 70%, and 61% respectively), with the largest increase in Brazil, which rose by 19% (see Chart 1).

In Western economies, there is increasing distrust in business; in the U.K. 44% trust business (a decline of 5% from the previous year) and the U.S. experienced a fall of eight percentage points (54% to 46%). This places the U.S. within 5 points of Russia, where business is least trusted.

Chart 1: Responses to the question 'How much do you trust business to do what's right?'



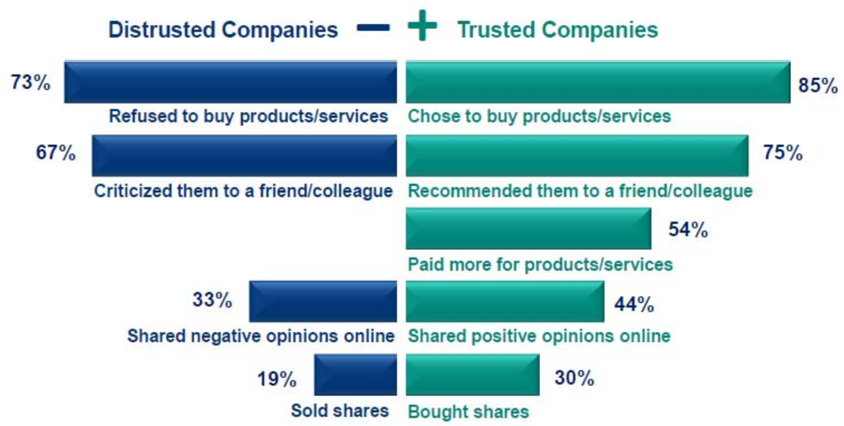
Source: Edelman Trust Barometer, 2011

Globally, technology continues to be the most trusted sector for the third year (81%), followed by the automotive and telecommunications industries (69 and 68% respectively). Insurance companies (52%), banks (51%) and financial services (50%) are the least trusted sectors. Overall trust in banks has fallen, reflecting a three year downward trend. This is most notable in the U.K. where banks are ranked last (only 16% believe this sector can be trusted to do what is right) and the U.S. where banks have fallen from 68% to 25% between 2007 and 2010. There are trust discrepancies between developed and emerging economies – since 2009, trust in the banking sector rose in China by 12 points to 90% and in Brazil by 21 points to 69%. In emerging economies, NGOs are as or more trusted than business and the figures are rising.

The results reflect the importance of trust for business; for the second time, trust together with and transparent and honest business practices are amongst the top most important factors for corporate reputation globally (both 65%). This was topped only by high quality products and services (69%). In the U.K., 'a company I can trust' is the most important factor (75%) when it comes to corporate reputation (compared to 65% globally). 'Financial returns' is the least important consideration for corporate reputation in the U.K. and globally. Chart 2 shows how consumer behaviour is influenced by their trust in business.

Chart 2: Actions taken by the global public over the last 12 months

The important relationship between corporate reputation and trust is shown with the finding that 57% of respondents said they are able to believe negative information about a company that is distrusted, after hearing the information only once or twice. It is difficult to rebuild trust after damage to corporate reputation; this is worse in the U.K. and U.S. where approximately a quarter need to hear positive information



Source: Edelman Trust Barometer, 2011

about the company six or more times before they believe it (this is double the number of times as in 2009). Trust in CEOs has risen globally, and CEOs are more trusted (35%) than employees (28%) in the U.K. Globally, people want information from experts and figures with credibility in times of crisis, with CEOs being the most preferred spokesperson in every case.

Full report available at: http://www.edelman.com/trust/2011/

Ernst & Young Global Fraud Survey: Driving Ethical Growth - New Markets, New Challenges 2010 (Global)

'Incidences of fraud occur twice as much in Western Europe as anywhere else in the world'

The 11th Global Fraud Survey conducted biennially, involved over 1,400 interviews with Chief Financial Officers (CFOs) and heads of internal audit, legal and compliance functions across 36 countries. The survey found that, globally, cases of significant fraud had increased from 13% in 2008 to 16% in 2010. In Western Europe, this figure more than doubled, rising from 10% to 21%.

Responses to fraud were found to be *ad hoc* and undeveloped, despite the rise in incidents; over half of respondents outside North America do not have a response framework for fraud allegations and over a quarter had not updated their fraud risk assessment since 2009. Management of fraud was also undeveloped; two in five respondents rarely conduct due diligence for fraud or corruption.

Board's are not being proactive when it comes to managing the risk of fraud; only 4 in 10 CFOs have been asked to review anti-fraud and corruption controls by the Board and 28% have been asked to produce a fraud risk assessment in the last 12 months. When asked whether the Board needs a more detailed understanding of the business if it is to be an effective safeguard against fraud, bribery and corrupt practices, half of respondents agreed globally, with this figure rising to almost 75% in the Far East region. Similarly, knowledge of anti-bribery policies amongst company lawyers was poor, with almost a quarter unaware of their company's policy on facilitation payments.

Full report available at: http://tinyurl.com/69wvhej

KPMG Forensic Fraud Barometer 2010 (U.K.)

'Fraud hit 20-year high in 2010'

This survey considers major cases of fraud where charges are £100,000 and above. The most common types of fraud were tax fraud, money laundering and cases involving new technology. The number of fraud cases rose 16% over the past year costing victims nearly £1.4bn. Banks were the most commonly targeted (87 cases in financial institutions costing £267m), but the biggest rise in cases of fraud involved the U.K. Government – 70 reported cases costing £593m compared to 59 cases in 2009.

Fraud by company managers rose by 30%, costing £441m compared to employee-related fraud at a third of this value (£129m). Individual investors were targeted just over half as much (35 cases) but at the much larger cost of £338m.

Details of the report available at: http://rd.kpmg.co.uk/24595.htm

McKinsey Global Survey 'Moving Women to the Top' 2010 (Global)

'A majority of executives believe gender diversity in leadership links to better financial performance, but companies take few actions to support women in the workforce'

This report presents the findings from a survey of 772 men and 1,042 women drawn from a range of regions and industries.

Overall, 72% of respondents agree there is a direct connection between a company's gender diversity and its financial success (85% of women vs. 58% of men). However, only 28% actually have the issue as a top ten agenda item and 80% of respondents say that since the financial crisis began there has been no change in their companies' view of gender diversity as a strategic issue, despite the recognition of the link to financial performance. There is variation across regions; more companies in the Asia-Pacific (35%) and developing economies (34%) had gender diversity as a top ten agenda item.

Respondents considered the top three barriers to creating a more diverse workforce to be: ‘lack of awareness or concern for gender diversity as a critical matter’ (37%), ‘lack of target setting and implementation objectives for gender diversity initiatives’ (24); and ‘a low level of commitment from the CEO and top management (24%).

Full report available at: http://tinyurl.com/36u5t8k

Other Surveys of Interest

Integrity Interactive ‘Top Compliance Concerns of Global Companies’ 2010 (Global)

- Data collected from over 15 million employees between 2006 and 2009
- Responding companies from the following sectors: consumer goods; energy; financial; healthcare; industrial; I.T.; materials; telecommunications services; and utilities
- Found a ‘core curriculum’ for ethics and compliance training, the top four topics being code of conduct; mutual respect of law; competition law and anti-bribery
- Approximately 75% of responding companies enrol employees on a code of conduct course annually.

Full report available at: http://tinyurl.com/6433cv5

Grant Thornton ‘Moving Beyond Compliance: Embracing the Spirit of the Code’ Corporate Governance Review 2010 (U.K.)

- Reviews corporate governance practices amongst the U.K. FTSE 350
- 47% of companies believe they comply with the Code
- Reporting of strategy, risk and control is often inconsistent and *ad hoc*
- 30% of the FTSE 100 and over half of the FTSE 250 fail to engage with shareholders on the reasons for their decision making and activities
- Environmental risks are not a priority for the Board – they make up only 2.8% of all risks disclosed.

Full report available at: http://tinyurl.com/629xz2b

Black Sun ‘Talking the Talk, Walking the Walk: Examining corporate responsibility reporting trends in Annual reports’ 2010 (U.K.)

- Review of the Annual reports of FTSE 100 as of March 2010
- 81% produce a stand alone CR report
- 60% refer to their CR report in their Annual report
- 91% of companies have a CR section in their Annual report – but 17% do not include any data on CR performance in this section.

Details of the report available at: http://tinyurl.com/5wqvrrs

Corporate Responsibility Magazine ‘Corporate Responsibility (CR) Best Practices: Setting the Baseline’ 2010 (Global)

- Responses from 650 companies including those listed on the NYSE Euronet
- A third of companies have evidence that CR has improved their profitability
- Despite the economic recession, budgets for CR functions have increased or remained consistent with budget changes in other functions
- Over half of CR functions do not report directly to a Board member
- 23% of Boards have led a CR initiative over the past year
- There is disagreement over the value of CR; corporate responsibility officers and CEOs value different aspects of CR.
- U.S. based companies are less likely to have a dedicated corporate responsibility officer; 35% compared to Europe, Asia Pacific/Australia and Canada (65, 64 and 47% of companies respectively).

Full report available at: http://tinyurl.com/6zkmcek

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