Surveys on Business Ethics 2016

In this Briefing, the IBE highlights the findings of 11 pieces of research conducted throughout 2016 in the field of business ethics, commenting on common themes and emerging trends.¹ This Briefing is published annually.

In 2016, the topics of corporate governance, anti-bribery and corruption (ABC) and modern slavery were explored by different national and international organisations, reflecting the issues that drew most attention throughout last year. The majority of the surveys are based on the perceptions of either ethics and compliance practitioners, employees or the general public.

Ethics and Compliance Initiative (US) – 2016 Global Business Ethics Survey²
Global survey on general business

The ECI see ethics and compliance risk as the extent to which organisations and their employees are vulnerable to violations of workplace integrity. This survey explores worker experiences in 13 countries, in both public and private sector organisations. Medians were used to represent the ‘global number’, providing a basis for comparison. The ECI aim to provide an insight into the ethics environment by highlighting the risks that emerge from ethical lapses. Drawing on their national research, they identify four key metrics that indicate risk: pressure to compromise organisational standards (22%), observed misconduct (33%), reported misconduct (59%), and retaliation against reporters (36%).³

The extent that employees feel pressure to compromise organisational standards is a key indicator for a larger potential threat to integrity. Nearly three-quarters of all respondents surveyed who felt this pressure also observed misconduct where they worked. By comparison, when this pressure was absent, just 17% said they witnessed misconduct in their workplace. More employees in Brazil, India and Russia experience both pressure to compromise standards and observe misconduct than their counterparts in other countries surveyed.

In 10 of the 13 countries surveyed, 50% or more respondents said they had reported observed misconduct. In 11 out of 13 countries, at least one in three respondents had also experienced retaliation. 90% of this retaliation occurred within the first six months of the initial report. A direct relationship was revealed: countries with higher rates of reporting also tended to have higher rates of retaliation. The most common issues reported in nearly every country were lying (26%) and abusive behaviour (25%).

There is significant variance in the rates of bribery and corruption-related misconduct reported across the countries surveyed (See Figure 1). Respondents in India, China and Germany observe more corruption and bribery related misconduct compared to other countries surveyed. 55% of respondents said bribery involves management.

Figure 1: Respondents observing bribery and corruption-related misconduct by country

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¹ For two reports in this Briefing, the research was conducted in 2015 and reported on in 2016: 1) ECI 2016 Global Ethics Survey 2) EY Corporate Misconduct – Individual Consequences. The data for the 2017 Edelman Trust Barometer was collected in 2016 but reported on in 2017.
² The data was collected between 30 November and 31 December 2015 but was not reported on until 2016.
³ Percentage figures represent the number of respondents globally that report observing these risks to integrity in their workplace.
These results were complemented with the analysis of the perceptions among business professionals of current corporate governance practices. An online survey was emailed to IoD members, FTSE 350 secretaries, the ICAEW and other professionals. Participants were presented with a random sample of 30 companies from which they were asked to choose those they felt qualified to rate in terms of corporate governance. 744 participants provided 1977 ratings on a sample of 100 companies. To estimate the partial correlations between the perception survey and the corporate governance factors, they regressed one against the other.

Observations from the survey suggest that participants do not equally weigh the five areas of corporate governance - more weight was placed on audit and risk/external accountability and less on board effectiveness.

The IoD has used the survey results to attribute weighting to the five areas of corporate governance. After combining traditional governance indicators with a measure of corporate governance as perceived by stakeholders, they found that:

1) not all components of corporate governance have an equal impact on perceptions of corporate governance; and
2) while every group of respondents seemed to care about audit and risk/external accountability, there are interesting differences across the

Institute of Directors (UK) – The 2016 Good Governance Report
British survey on corporate governance

This project was a response to calls for the debate around corporate governance to be reignited, moving away from a compliance approach towards one that combines traditional indicators, with measures of quality according to stakeholder perceptions. This survey first selected a number of objective measurable factors that were publicly available, as illustrated in Figure 2. The Institute of Directors (IoD) then conducted a survey of stakeholder perceptions.

The study included the 100 largest companies according to the London Stock Exchange (as of 31 March 2016), providing they were not investment trusts and that data for at least 80% of the instrumental factors could be collected.

The corporate governance factors chosen were guided by the definition of corporate governance given in the Companies Act 2006 and the UK Corporate Governance Code. They used 34 factors and each factor was weighted equally (see Figure 2).

Figure 2: Corporate Governance Factors
stakeholder groups. For instance, customers cared more about shareholder relations whilst investors and analysts cared more about stakeholder relations.

According to the IoD, this variation in preferences in the debate around corporate governance deserves attention.

Grant Thornton (UK) – The Future of Governance: One Small Step…

British report on corporate governance and openness with information

For the 15th year, Grant Thornton has analysed the quality and detail of the FTSE 350’s annual reports, reviewing their compliance with the 2014 UK Corporate Governance Code and narrative reporting requirements set out in the Companies Act 2006.

Grant Thornton report that 86% of FTSE 350 companies mention corporate culture in their 2016 annual reports, demonstrating how corporate culture has gained significant prominence. However, 48% do not clearly communicate their organisation’s values. Despite wide acknowledgement that the tone must be set from the top, only 21% of FTSE 350 CEOs address culture in their introduction to the annual report.

As of 2016, 62% of the FTSE 350 fully comply with the 2014 UK Corporate Governance Code, increasing from 57% in 2015 (see figure 3). The most significant area of non-compliance arose from directors’ lack of independence and failure to meet audit and remuneration committee requirements.

This survey shows that defining appropriate remuneration criteria remains a challenge for many companies. Recent guidance has started to shift emphasis towards performance-related pay tied to long-term performance. Companies using wholly financial metrics for executive performance-based remuneration continued to decline, falling from 54% in 2016 to 35% in 2016. 95% of the FTSE 350 discuss the link between executive remuneration and the company’s strategy in their annual report.

Overall, the FTSE 100 meet the 2011 Davies Report target of 25% female board-level representation. However, the focus is increasingly turning to executive representation, as 80% of FTSE 100 are without any female c-level executive directors.

Grant Thornton conclude that whilst there are positive trends in outputs from board evaluations and clearer risk and strategic reporting, there remains a significant number of companies who choose to do the bare minimum – complying with the rules but not living the principles that the UK Corporate Governance Code seeks to promote.

In 2016 our FTSE 350 sample includes 308 companies: 100 from the FTSE 100 and 208 from the FTSE 250. In 2015 our FTSE 350 sample included 312 companies: 100 from the FTSE 100 and 212 from the FTSE 250. In 2014 it included 303 companies: 99 from the FTSE 100 and 202 from the FTSE 250.
business ethics function, the CEO or company secretary. The survey asked questions following the structure of the IBE Ethics Framework which illustrates how to embed ethical values in business (see page 10).

The survey shows that companies are committed to supporting an ethical culture, highlighting the importance of senior leadership engagement. In 2016, 93% of respondents consider their organisation to be supportive in establishing an ethical environment. 86% said that values and culture are regular items on the board agenda, suggesting that companies are engaging with the notion of setting the tone from the top.

Bribery and corruption is the main issue of concern for companies, followed by speaking up/whistleblowing and supply chain issues.

Our survey revealed that the most common elements of an organisation’s ethics programme are the code of ethics, ethical training, speak up mechanisms and internal reporting tools. The main purpose of the code is to provide guidance to staff and create an open, shared culture. Almost four in five companies include conformity to the company’s code in their contract of employment.

74% of companies surveyed have a clear communication strategy for their ethics programme. Most respondents find that specific code training, either face-to-face or online, is still the most effective way to embed its key messages throughout their organisation, supported by broader awareness-raising campaigns. Although 97% of respondents who have a speak up system in place also have a policy to protect employees against retaliation, only 41% have established a formal approach to monitor it.

Three concluding points were drawn:

- engagement of senior leadership and establishing a tone from the top is growing to be a widely accepted practice
- respondents stress the value of employee ethics training on a regular basis
- cross-function collaboration improves effectiveness.

Edelman (US) – 2017 Global Trust Barometer

Global survey on trust

The 2017 Edelman Trust Barometer is the firm’s 17th annual trust and credibility survey. Edelman surveyed over 33,000 respondents aged 18 and over, across 28 countries. This includes 500 ‘informed public’ respondents in the US and China; 200 in all other countries, representing 13% of the total population.

In last year’s survey, trust in all four institutions (business, government, the media and NGOs) increased to its highest level since the global recession, with business registering the biggest increase. This year, trust in these four institutions fell across the board by 3% to 47%. In the UK, the average trust of the general population was down from 42% to 40%.

In only a third of the countries surveyed, the overall level of trust in institutions was above 50%. In 54% of countries surveyed, trust in business is more than 50%. However, business fares better than both government and the media who are trusted in only 25% and 18% of countries respectively.

The Barometer explores questions relating to the equality of the political and economic system and confidence in leadership. The sum finding was that 85% of respondents lack full belief in the system. In the UK, 60% believe the system is failing them and a further 29% of respondents are uncertain. The survey revealed that the most critical areas of concern are corruption, globalisation, eroding social values, immigration, and the pace of innovation. The results show that those who believe the system is failing (53% of total respondents) are also more fearful. 77% of those who believe that the system is failing are also fearful of corruption, compared to just 40% of general respondents.

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4 All fieldwork was conducted between 13 October 2016 and 16 November 2016.

5 Edelman defines the ‘informed public’ as those who meet all of the following criteria: (1) aged 25-64, (2) college educated, (3) in the top 25% of household income per age group in each country, (4) report a significant amount of media consumption and engagement in business news and public policy.
This climate of distrust has led to a situation where 64% of the general population find leaked documents more believable than press statements. The survey finds that respondents are most likely to find a person like themselves more credible, tying with technical experts. The credibility of CEOs has fallen by 12% this year to 37% – an all-time low. Government and regulatory officials fared the worse (29% of the general population consider them credible).

The survey indicates that business is playing a role in fuelling societal fears. The global population worries about losing their job due to a lack of training/skills (60%), foreign competitors (60%), immigrants who work for less (58%), jobs moving to cheaper markets (55%) and automation (54%). 50% of respondents said globalisation is taking us in the wrong direction.

Paying bribes to win a contract, paying executives hundreds of times more than workers and moving profits to overseas jurisdictions to avoid tax were the top three most damaging actions a business could take to further harm trust.

62% rated the treatment of employees as an important attribute for building trust in a company, 56% viewed ethical business practices as important.

In 2016, the perception of the general public was that British business behaviour is not as ethical as it has been in recent years. For the first time since 2012, those that view British business as behaving ethically fell below 50%. This shift in perception stems from a significantly higher proportion of respondents who did not venture an opinion one way or the other, as those that consider British business to be behaving unethically varied little over the same period. However, we appreciate that studies have suggested that online surveys elicit more ‘don’t know’ responses compared to face-to-face surveys. Respondents are considered to be more comfortable in saying they are unsure about something when not responding face-to-face.

We also asked participants to select up to three issues, from a pre-defined list, which they consider most in need of addressing. The top 3 issues of concern remained unchanged for a third consecutive year, comprising of corporate tax avoidance, executive pay and exploitative labour. Work-home balance for employees entered the top 5 for the first time in the history of the survey. Protection of customer data/data privacy also became a top 5 issue of concern for the first time (introduced in 2014).

Employees being able to speak up about company wrongdoing lost its top 5 position after 10 years (introduced in 2005), ranking joint sixth with environmental responsibility and harassment and bullying in the workplace.

Control Risks (UK) – International Business Attitudes to Corruption 2016
Global survey on anti-corruption

This report is based on a survey of legal and compliance professionals from over 800 companies. The findings of the survey support many established conclusions about the global anti-corruption landscape. It reports on who suffers most from corruption, the extent to which extra-territorial anti-corruption laws are having an impact on formal anti-bribery and corruption (ABC) measures and practices.
Overall, 30% of respondents report losing out on contracts where there is strong circumstantial evidence of bribery by the successful competitor. Companies based in non-western jurisdictions are more likely to report losing out to an unethical competitor. Control Risks compares its findings to a 2011 Transparency International report, demonstrating a striking correlation in the 'geography of corruption'.

Further, 30% of overall respondents said they decided not to carry out business in a particular jurisdiction due to the perceived corruption risk (see Figure 4). The UK is highlighted as the most risk-averse. Of the companies asked, 41% said the risk of corruption was the primary reason they pulled out of a deal that they had already spent both time and money on.

The findings of this report suggest that extra-territorial anti-corruption laws are seen as a force for good, where previously they have been judged to place an unfair handicap on the West (particularly in the US under the FCPA). Over four-fifths of respondents believe these laws improve the business environment, just under two-thirds say they have deterred corrupt competitors and more than half think it has made it easier for ethical companies to operate in high-risk markets. Most striking is the finding that companies based in jurisdictions with the most stringent anti-bribery laws (the US, UK and Germany) have an increased willingness to operate in high-risk jurisdictions than previously reported. Based on conversations with their clients, Control Risks believe this is because the law is serving as an alibi – if a corrupt official knows you cannot pay, they are less likely to make such demands.

Three of the four top deterrents to corrupt business behaviour involved an element of fear: of prosecution, of internal monitoring and of company penalties (e.g. dismissal). In this survey, only 58% of companies have procedures for integrity due diligence of third parties. Considering the role of intermediaries in bribery and corruption, this figure is not considered high enough. However, in the US, UK and Germany this figure was 70% or more, again reflecting the impact of ABC legislation. Although the overall trend in compliance programmes is positive, 51% of companies had conducted no internal corruption investigations in the previous 2 years. This could be hazardous if in the future companies are required to build a defence through demonstrating 'adequate procedures', as required by a number of domestic ABC laws.

To download the full report from the Control Risk website click here >>>

Dow Jones (US) – Anti-Corruption Survey Results 2016

Global survey on anti-corruption

This is the 8th edition of the annual Dow Jones State of Anti-Corruption and Compliance Survey. The results are based on 330 online survey responses from compliance professionals, representing companies with an anti-corruption programme worldwide. This survey monitors the use of corporate anti-corruption programmes, its impact on business decisions and due diligence in practice.

Anti-corruption programmes

Of the firms represented, the number that report having an anti-corruption programme continues to trend upwards, increasing to 92% in 2016 from 82% in 2014. The most common response among the remaining 8% of respondents explaining why they do not have a specific anti-corruption programme was that it is already covered by other programmes and policies (52%). This survey suggests that anti-corruption programmes continue to mature, 59% now reporting their programmes have been in place for 6 years or more. As in previous years, nearly

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6 Transparency International (2011) Putting Corruption out of Business: Lost Business Due to Bribery
all respondents said their company’s anti-corruption programmes include an internal code of conduct and internal training.

In 2016, government sanctions became the most likely event to trigger relationship reviews (89%). Potential negative media coverage, reputation issues and discovery of regulatory issues are also recorded by over 70% of respondents. Over 80% of respondents said they currently risk-rank countries. Transparency International’s CPI continues to be the most popular source of information for doing this.

The FCPA (56%), UKBA (53%) and FATCA (48%) alongside local/other regulations (55%) are the most likely to impact on a company’s anti-corruption policy. The number of respondents citing the influence of local/other regulations fell significantly between 2015 and 2016, decreasing from 64% to 55%. The proportion of respondents reporting that their company has lost out on business to an unethical competitor continues to fall from 33% in 2014 to 26% in 2016.

**Due diligence**

Over 60% of respondents were ‘at least somewhat confident’ in their company’s due diligence information and processes, however the survey highlighted a number of barriers that continue to hinder these processes. Of the respondents that were not confident, difficulty evaluating credibility of information rose sharply, increasing from 44% in 2014 to 61% in 2016. Over a third of respondents also reported difficulty in accessing information and having insufficient staff to gather information.

To download the full report from the Dow Jones website [click here]>>>
giving the correct level of attention to addressing fraud, bribery and corruption in their organisation.

Of the CFOs and financial team members represented in the survey, the proportion that said they would mis-state financial performance (7%) is almost double that of total respondents (4%). Given the reliance on the financial team to provide accurate data this is a significant worry.

83% of respondents support the recent trend in prosecuting individuals (particularly by the SEC and SFO), viewing enforcement against management as an effective deterrent.

With the significant minority of global executives willing to justify unethical activity and the increased enforcement efforts of the regulators, boards need to continuously improve their ability to identify risk. Although 55% of companies represented have a whistleblowing hotline, 19% of respondents cited loyalty to their company and 18% said that loyalty to their colleagues serve as key deterrents to internal reporting.

Since their last survey in 2014, the number of respondents undertaking ABC due diligence has fallen (see Figure 5). However, of the respondents operating in high risk jurisdictions, almost two-thirds carried out either enhanced due diligence or more frequent internal audits.

To download the full report from the EY website click [here]>>>

Norton Rose Fulbright (UK) – Exploring Human Rights Due Diligence

Global survey on human rights

Whilst due diligence is carried out in a variety of contexts by companies, the nature of human rights due diligence is different. This study aimed to clarify its meaning, providing clearer guidance to companies on what is required, helping them to understand the scope and consequences of human rights due diligence. The majority of the 152 respondents represented a large multinational company, these individuals were mostly from the legal department. To complement the survey, semi-structured interviews were carried out with 14 senior managers about human rights due diligence in their sector.

The survey identified reputation, avoidance of legal risk and compliance with reporting requirements and applicable laws as the top incentives for conducting human rights due diligence.

Of the respondents that had conducted specific human rights due diligence process, 77% identified actual or potential human rights impacts, further 74% identified adverse impacts linked to activities to their third-party business relationships. This is compared to just 19% of respondents identifying unfavourable human rights impacts when no specific human rights due diligence was carried out, and only 29% of respondents reported identifying adverse risks linked to their third-party business relationships.

Where companies do not undertake specific human rights due diligence, rather incorporating it into other due diligence processes, highly regulated human rights issues are likely to be considered (e.g. health and safety, labour rights etc.). Moreover, correlating with this regulatory focus, the human resources function is most likely responsible for human rights-related work. Equally, the survey found that the CSR function is more likely to be responsible when explicit human rights due diligence is carried out, utilising its company-wide mandate, working with other functions to monitor responses when lapses have been identified.

The survey found that there is a high tendency for companies to undertake specific human rights due diligence if they have previously been connected to allegations related to human rights violations. This was also true if organisations within their sector, industry or context had also been connected to human rights abuse.

The most commonly cited methods for identifying human rights impacts were desktop research, studies, audits, investigations, independent expert reports and stakeholder consultations. Grievance mechanisms appeared to be underutilised by participants.

The main challenges in conducting human rights due diligence centred on properly determining the risks associated with third parties. Respondents commonly reported difficulty in determining ‘how far is enough’ when engaging in supply chain due diligence. Further, respondents cited difficulty in having information on third parties and country-specific issues readily available.
The survey found that whilst individual companies and sectors may differ, overall when human rights due diligence is carried out it looks similar across sectors and corporate structures, following the UN Guiding Principles Framework.

To download the full report from the Norton Rose Fulbright website click here

Ethical Trading Initiative (UK) – Corporate Leadership on Modern Slavery
Global survey on modern slavery

A year after the introduction of the UK Modern Slavery Act, this survey investigates what companies who are leading in their approach and commitments are doing to address the problem of complex global supply chains. ETI interviewed 25 leading brands and retailers and a further 46 organisations participated in the in-depth survey.

77% of companies consider modern slavery in their supply chain probable. The reputational hazard stemming from the public exposure of worker abuse is a driver for action on modern slavery for 97% of companies.

- 82% of companies agreed that human rights issues must be included strategically within their organisation’s core business model
- 93% of respondents viewed long-term relationships with suppliers as more effective in the long run compared to switching suppliers in the short-term and managing short-term risks
- 90% of respondents said that due diligence of labour standards is crucial, 71% have formal processes in place
- 93% of companies recognise a responsibility to take corrective action and compensate victims of modern slavery and 40% had clear remediation procedures in place.

The 2017 Edelman Trust Barometer indicates that shifting profits offshore to avoid taxes and paying executives excessively compared with their workers were among the top three most damaging activities a business can do to undermine trust. Corporate tax avoidance and executive remuneration are also among the top ethical issues of concern for the British public.

Throughout 2016, there were a number of high-profile cases reported in the media that exposed the unsatisfactory nature of incentives structures. The results of these surveys suggest that a number of ethical lapses occur when employees at all levels feel a strong pressure to succeed, whether that be explicit or not.

The issue of bribery and corruption continues to be a primary subject of global research, although perceptions of the issue vary widely among different stakeholders and across national jurisdictions. In contrast to respondents from the general public, responses from business professionals prioritise bribery and corruption alongside similar issues of a legal nature. The UK held the world’s first global Anti-Corruption Summit in May 2016, attended by representatives from 40 countries. Particular attention was paid to both corrupt money infiltrating the legitimate financial system and corruption in public procurement. The findings of these surveys suggest that national regulation is impacting positively on the behaviour of companies but barriers to due diligence is widely reported. It appears that ethical matters which have some legal ramifications for companies are higher up the corporate agenda.

To download the full report from the Ethical Trading Initiative website click here

IBE Comments

The following themes emerge from this research – they all have practical implications for ethics and compliance practitioners:

- Although the perceptions of ethics and compliance are largely moving in a positive direction, some challenges remain. Whilst it is observed that ethics is increasingly discussed at board level, not all stakeholders recognise board effectiveness as important in this context. Moreover, the results indicate that the senior leaders are often perceived to justify unethical practices. Continuing to pursue the engagement of senior leadership is therefore key to regaining and building public trust.

We can expect to see the subject of good governance at the centre of future debate. In July 2016 the Financial Reporting Council published Corporate Governance and the Role of Boards, essentially looking at corporate culture and what drives long-term value in business. The UK Government has recently published its Green Paper on Corporate Governance Reform which is looking
specifically at executive pay, the employee and customer voice and corporate governance in large private businesses. Across the surveys, the results are consistent with this narrative, helping to endorse the requirement for an ethical corporate culture as stemming from the tone from the top. However, there is often difficulty in balancing the competing priorities of different stakeholder groups, which feeds into the matter of how businesses can pursue long-term value.

There is a consistent theme in the 2016 surveys of transparency and openness, with an emphasis on non-financial reporting. Openness with information might help to improve business’ relationship with its stakeholders. In the UK, the Modern Slavery Act and the Persons with Significant Control Register are two transparency tools that came into force last year. The first seeks to shed light on human rights issues in a company’s supply chain. The second aims to improve the detection of corporate corruption and illicit financial flows.

Overall, although the global ethics landscape appears to be improving, it seems that more needs to be done to move away from an attitude of compliance towards living the values organisations are striving to embed. In turn, in the long run this is expected to impact positively on public perceptions and trust.

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