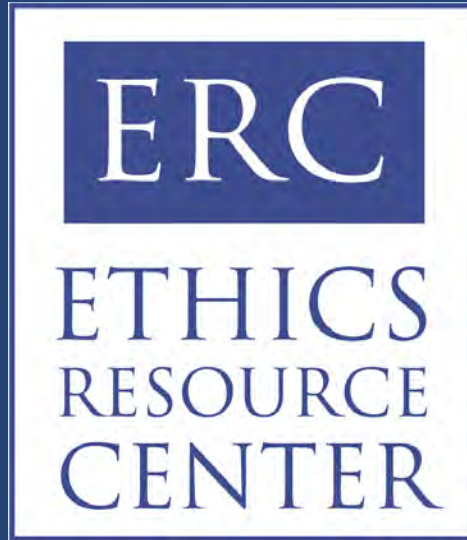




Supplemental RESEARCH BRIEF
2009 NATIONAL BUSINESS ETHICS SURVEY[®]

*Saving the Company Comes at a Cost:
The Relationship Between Belt-Tightening Tactics & Increased Employee Misconduct*





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.

Saving the Company Comes at a Cost:

The Relationship Between Belt-Tightening Tactics & Increased Employee Misconduct

In order to address changing needs and to weather financial struggles, companies often have to make difficult decisions that impact employees' lives at—and outside of—work. Companies use a variety of tactics (adjusted work schedules, layoffs, reductions in compensation and/or benefits, hiring freezes, early buyouts, production slowdowns, and plant closures¹). Research conducted as a part of the 2009 National Business Ethics Survey² reveals that *all* of these tactics are related to significant increases in the number of employees observing misconduct.

Percentages of Employees Observing Misconduct³ in the previous 12 months

	Did Not Experience Company Tactic	Did Experience Company Tactic	Diff.*
Adjusted Work Schedules	46%	63%	38%
Layoffs	47%	61%	30%
Comp/Ben Reductions	46%	66%	43%
Hiring Freezes	44%	62%	39%
Early Buyouts	50%	67%	35%
Production Slowdowns	48%	62%	29%
Plant Closures	52%	64%	24%

©2010 Ethics Resource Center

* The “difference” refers to the magnitude of change, not a difference by percentage points. It reflects a percentage increase. For example, a rise from 40 percent to 60 percent would be a 50 percent increase.

Thoughtful leaders carefully weigh how various options will affect workers, as well as the company as a whole. It is inevitable that such actions will result in an erosion of positive employee perceptions, but careful planning and communication can help

mitigate the damage. One particular area of concern for management is whether and how employees “act out” against the organization in response. In order to help inform their decision-making, ERC has examined several key organizational and employee charac-

1. Research cited in this report was collected in conjunction with ERC's 2009 National Business Ethics Survey. All responses were based on employees' experiences in their company. Therefore, tactics that involve the actual loss of employment (e.g., layoffs, plant closures, etc.) are explored exclusively from the perspective of the remaining employees. Data was not collected and does not reflect the experiences of employees who were not retained by their company at the time of the survey.
2. For more information about the National Business Ethics Survey, see p. 7.
3. Respondents were asked about 27 specific behaviors. “Yes” respondents stated that they had observed at least one of the behaviors in the previous 12 months.

teristics in order to determine the relationship between company tactics and increases in observed misconduct:

- Which tactics are linked to the most dramatic rises in observed misconduct?
- What seems to drive the increase and how do the tactics impact different groups of employees?
 - Are certain kinds of companies at greater risk than others when implementing these tactics?
 - Does organizational size play a role?
 - Do privately-held companies weather the challenges better than publicly-traded ones?
 - Are certain employee groups particularly vulnerable? When implementing such tactics, do certain employee groups need extra support?
 - Does employee age play a factor? Do certain generational groups seem to be more harshly impacted by company tactics?

FINDING 1:

Compensation/benefit reductions and adjusted work schedules, which have a more direct impact on an employee's personal finances, life, and livelihood, are linked to more dramatic increases in misconduct than those (e.g., layoffs and plant closures) impacting an employee primarily in his/her work life. Reduction in compensation and/or benefits is associated with a 43 percent increase in the percentage of employees observing misconduct in the previous 12 months. Adjusted work schedules are linked to a 38 percent increase.

Furthermore, of the 27 kinds of misconduct that ERC inquired about, 16 of the most dramatic rises in misconduct rates were connected to these two belt-tightening tactics. Many of these specific forms of misconduct seem to demonstrate employee attempts to take out their frustrations and/or reclaim some of what they lost as a result of management decisions. For example, in comp/benefit reduction situations

there is an 81 percent rise in Internet abuse and an 84 percent increase in company resource abuse. In contrast, layoffs are associated with lower rises (38 percent and 52 percent, respectively) in these forms of misconduct.

TAKEAWAY 1:

Although comp/benefit reductions and adjusted work schedules reduce resource usage without compromising jobs, they also coincide with increased observance of misconduct. Executives should be on the lookout for hidden resentment and attempts to unscrupulously "take back" what employees feel they deserve.

FINDING 2:

The increase in misconduct associated with belt-tightening tactics is particularly dramatic in small organizations. Generally, observation of misconduct is less common in smaller companies than in large ones. Forty-eight percent of all employees in small companies (2-499 employees) observed misconduct in the past year, compared with 58 percent in large companies (10,000 or more employees). However, when small companies implement cost-cutting tactics, their edge is virtually eliminated.

For example, the rate of observed misconduct at small companies that have not experienced layoffs is 41 percent, compared to 56 percent at large companies without layoffs. But small companies with layoffs have a 62 percent rate of misconduct, which is higher than the 59 percent rate at large companies with layoffs. Hiring freezes, early buyouts, and production slowdowns are also associated with drastically rising rates of misconduct in small companies, leading to levels similar to those present in the largest companies.

TAKEAWAY 2:

Perhaps because there is less distance between management's decisions and employees, the impact of belt-tightening tactics is more profound in smaller companies and rises in misconduct are more severe. Leaders in small organizations should be especially attuned to the impact of implementing tactics.

FINDING 3:

When resource-saving tactics are instituted, two in three (67 percent) first line supervisors observe misconduct—a rate double that of supervisors in companies not implementing such tactics (35 percent), and significantly higher than any other employee level.

First-line supervisors seem to be an area of particular vulnerability, yielding the highest rates of observed misconduct of any employee level regardless of which tactic is being used. Notably, rates of observed misconduct among first-line supervisors are 74 percent or higher if any of several tactics (adjusted work schedules, comp/benefit reductions, early buyouts, production slowdowns, and/or plant closures) is implemented.

TAKEAWAY 3:

First-line supervisors are most likely to be aware of misconduct and also to receive reports of misconduct.⁴ This is true whether or not a company is in turmoil, but it does point to the vital role front-line supervisors can play as the “eyes and ears” of the organization. They need adequate resources, support, and training to address the stress created by and the additional misconduct related to the implementation of company tactics.

4. According to the 2009 National Business Ethics Survey, 46 percent of all reports are made to one's direct supervisor compared to the next highest reporting percentage (29 percent) going to higher management.

FINDING 4:

When cost-cutting tactics are not taken into consideration, employees in publicly-traded companies see higher rates of observed misconduct -- 58 percent -- compared with 49 percent in privately-held companies. *When private companies employ belt-tightening tactics, however, rates at public and private companies become virtually indistinguishable.*

In the case of companies experiencing layoffs, employees in private companies observe misconduct at a rate of 62 percent, virtually equivalent to the 61 percent in public companies. Comp/benefit reductions are connected to a rate of 66 percent observed misconduct in private companies and 67 percent in public companies. In the case of early buyouts, the rate of observed misconduct is also very similar in private companies (67 percent) and public ones (65 percent). When plant closures take place, employees in private companies are actually significantly more likely to observe misconduct, with a rate of 69 percent compared to 60 percent in public companies.

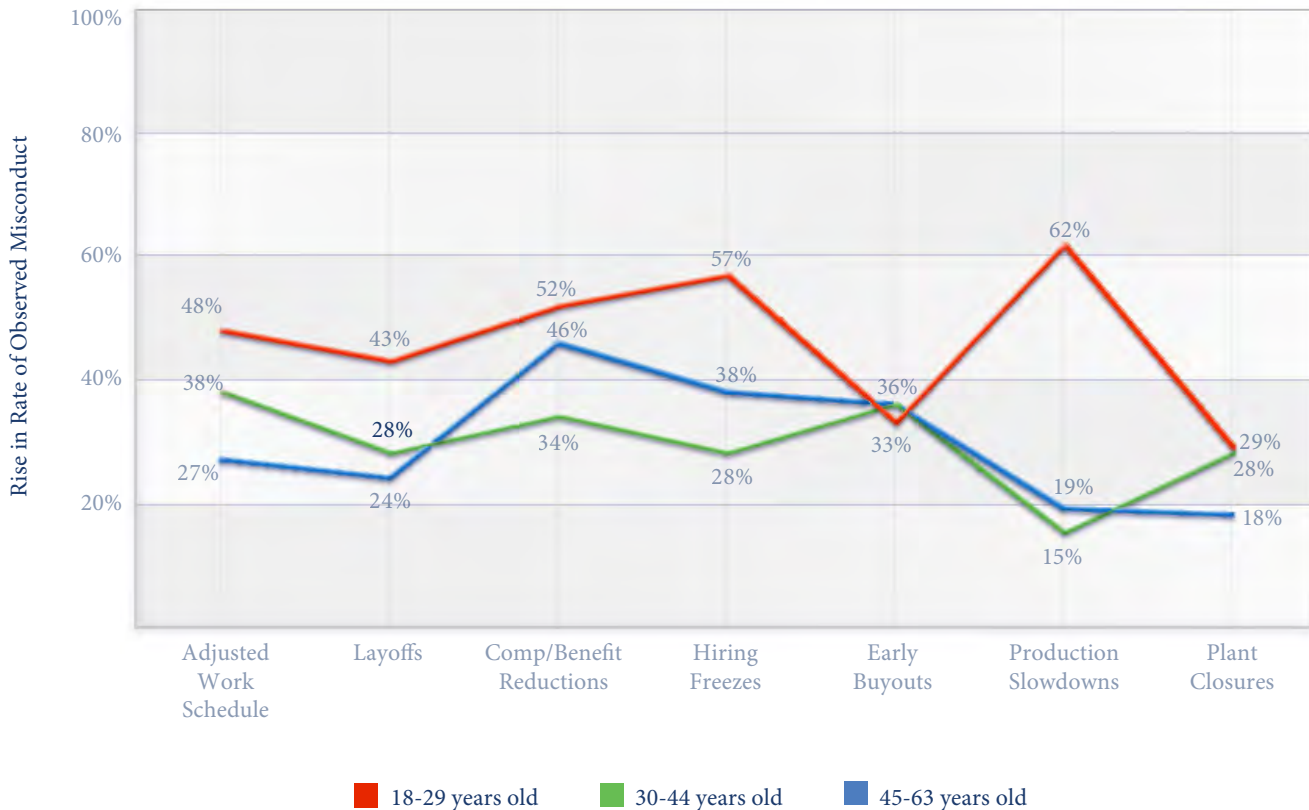
TAKEAWAY 4:

Leaders in privately-held firms need to be especially mindful of how tactics will impact their employees. They should expect and actively work to address the rises in misconduct that coincide with the implementation of tactics.

FINDING 5:

The rise in observations of misconduct is steepest among younger employees (18-29 years old), compared to all other employee age groups. Furthermore, these employees are the least likely to plan on staying with their companies for five or more years.

Increase in Observed Misconduct by Age and Belt-Tightening Tactic



©2010 Ethics Resource Center

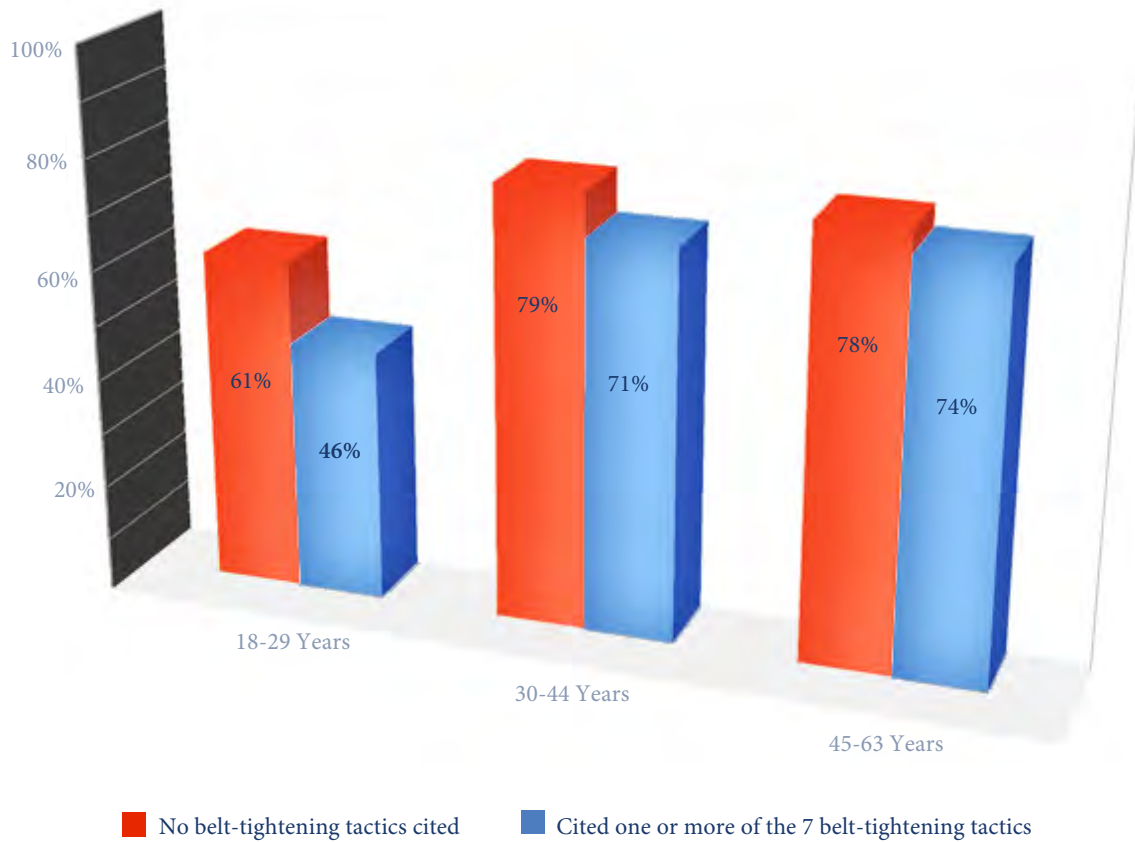
Resource-saving tactics are linked to steep rises in observed misconduct among the youngest group of workers. If any of the belt-tightening tactics is implemented, rates of observed misconduct among the youngest workers soar to over 66 percent. If comp/benefits reductions or production slowdowns are put into place, more than three in four in this age group observe misconduct.

In addition to troubling rates of observed misconduct among the youngest members of the workforce, cost-cutting tactics are also linked to greatly reduced rates of employee commitment, which has been

linked to employee performance and engagement.⁵ Considering the time, effort, and expense involved in finding replacements for workers who have left, it is understandable that companies seek to retain valued employees. The belt-tightening tactics ERC studied led to a decrease in the number of employees who planned on staying with their companies for more than 5 years. Decreases among more seasoned workers were fairly small (6 to 10 percent), but among the youngest group of employees there was a 25 percent decline in those intending to spend a significant portion of their career at their current company.

5. Corporate Leadership Council. (2004). *Driving performance and retention through employee engagement*. Washington, DC: Corporate Executive Board. As cited in the Society for Human Resource Management (2009) *Research Quarterly: Creativity and innovation in human resource management: A sign of the times*. Alexandria, VA: Society for Human Resource Management.

Percentage of Employees Intending to Stay with Company for Five or More Years by Age and Belt-Tightening Tactics



©2010 Ethics Resource Center

TAKEAWAY 5:

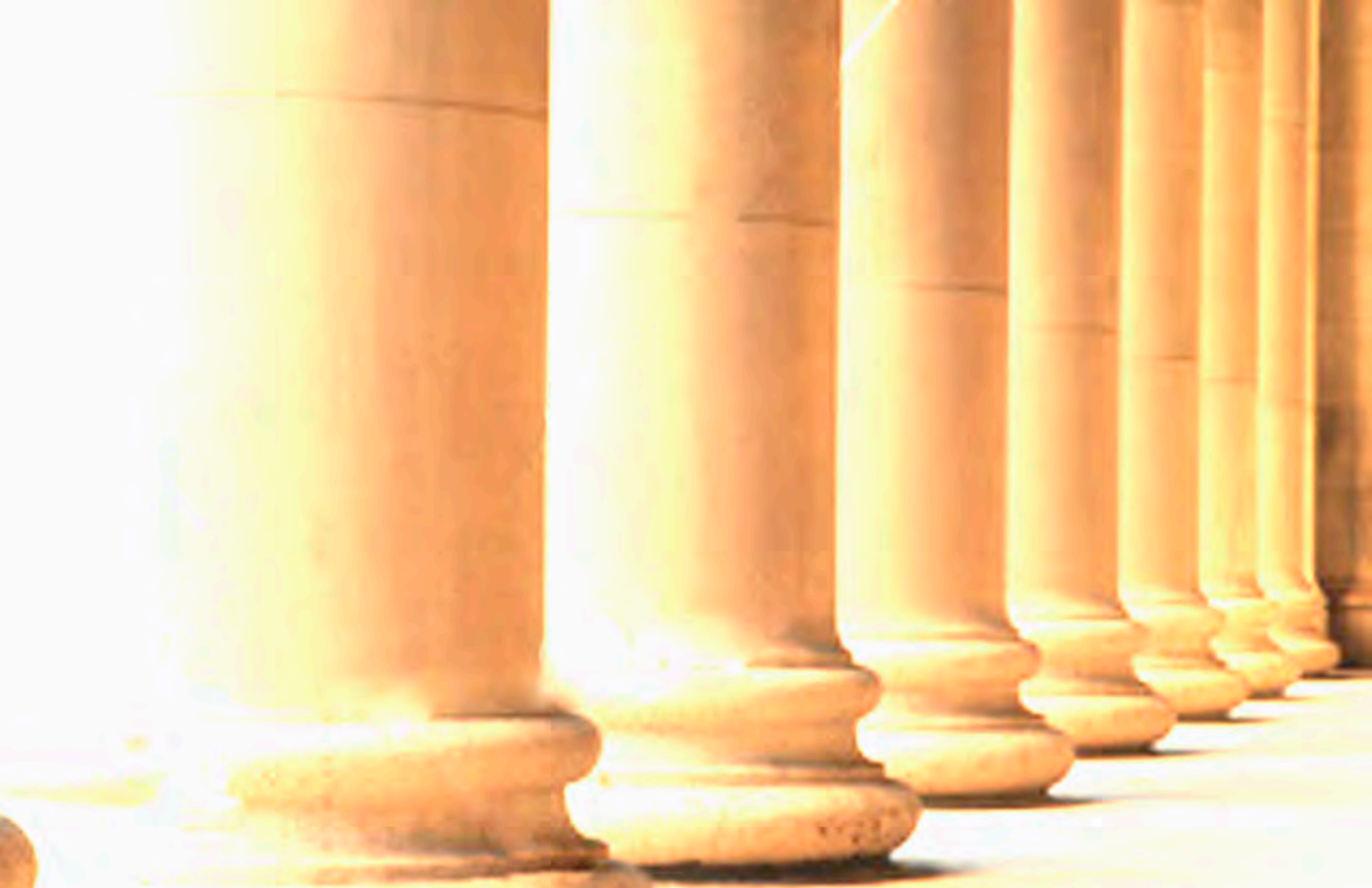
When preparing to implement tactics, leaders should develop a strategy aimed at younger workers to help them address the frustrations and challenges that result from such changes, helping to reduce misconduct and increase employee engagement.

SUMMARY

Management is often required to make difficult decisions in order to manage resources and protect the

financial health and viability of the company. While often inevitable, such decisions are not without consequences, particularly when it comes to ethics and ethical standards. Although all of the belt-tightening tactics investigated are linked to significant increases in observed misconduct, certain groups are particularly vulnerable:

- Employees whose personal financial status and livelihood is compromised;
- Employees in companies with fewer than 500 employees;
- First-line supervisors;
- Employees in privately-held companies; and
- Younger employees, 18-29 years old.



Ethics

A PILLAR OF GOOD BUSINESS



Join Our Growing List Of Ethics Survey Clients

Call Leslie Altizer
Senior Director of Benchmarking Services
Ethics Resource Center
571-480-4408 or email Leslie@ethics.org

The Ethics Resource Center is devoted to independent research and the advancement of high ethical standards and practices in public and private institutions. For 87 years, the ERC has been a resource for institutions committed to strong ethics cultures.

Visit us at www.ETHICS.org

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.



Ethics Resource Center
2345 Crystal Drive, Suite 201
Arlington, VA 22202
USA

Telephone: 703.647.2185
FAX: 703.647.2180
Email: ethics@ethics.org

Visit Our Website: <http://www.ethics.org>