LRN Inspiring Principled Performance®

# Benchmark of Ethical Culture 2024


## Unveiling the link between company culture, misconduct, and risk



# Contents

# Introduction

Global flashpoints and crises continue to arise and only accelerate, testing the ability of companies to grow sustainably while mitigating today's risks and anticipating tomorrow's crises. Company culture occupies a unique place within this complex landscape. It is itself an organizational risk—one need only read a few headlines to appreciate the role culture played in any number of recent corporate scandals.

But, to quote Michael Volkov, culture is also a company's most effective control. Culture is the behaviors and norms that are present in an organization: not just stated values, but the actual values that guide behaviors—how decisions are really made, emails really composed, promotions really earned, and people really treated every day. After all, rules are not self-executing, and culture determines which ones are observed in practice.

So how does culture influence business performance and reduce risk? What aspects of culture have the greatest effect on shaping employee behavior? And how does culture vary based on who you are in an organization, and where you sit? Against this backdrop, LRN presents our second ***Benchmark of Ethical Culture***. Leveraging data drawn from a cross section of more than 8,500 full-time employees, representing 13 industries and 15 countries, we share trends in ethical culture and conduct, and insights into the cultural "levers" that have the most impact. This report builds on three decades of work and supporting research that conclusively proves that ethical cultures don't just protect corporate reputations, they also propel the bottom line.

# Key findings

## 1. There is a need to shape ethical culture globally.

Ethical culture is moderately strong in all regions across the globe, demonstrating a consistent need to improve—particularly in creating a psychologically safe work environment. There are important variations by industry, with Software & Internet reporting the highest levels of performance (as they did in our 2021 research) and Government reporting the lowest performance across the various dimensions that make up ethical culture.

## 2. Companies with the strongest ethical cultures outperform.

By approximately 50%—across all measures of business performance, including market share, levels of customer satisfaction, employee loyalty, innovation, adaptability, and growth. Additionally, employees in organizations with strong ethical cultures observe misconduct at a lower rate and are 1.5x more likely to report their observations of misconduct. This provides a strong and compelling case for businesses to invest in building more rigor in the management of ethical culture.

## 3. Psychological safety is the strongest predictor of reporting misconduct.

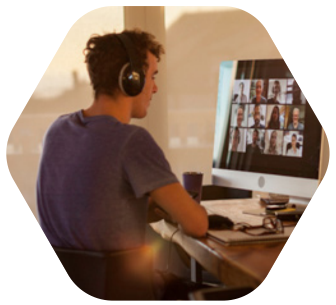
Ethical culture explains an astonishing 80% of the variation in whether an employee works in a psychologically safe environment. This is important because psychological safety is the strongest predictor of whether an employee will report misconduct. Illustrating the magnitude: for every unit increase in psychological safety, the likelihood of reporting misconduct increases by 2.4x.

## 4. There is a leadership disconnect.

Senior leaders report more favorable perceptions of the state of their cultures; Middle management report average; and Individual contributors and those on the front lines report the lowest perceptions of their cultures.

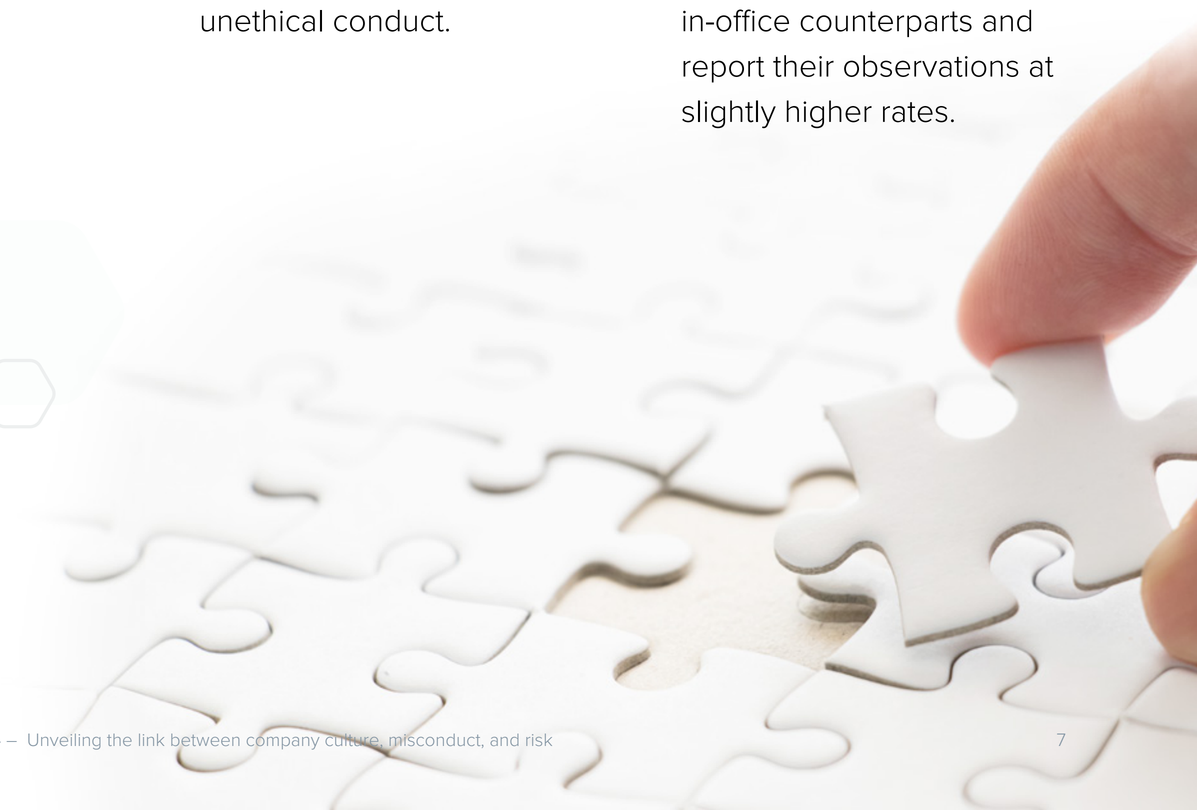
## 5. Gen Z has a higher tolerance for unethical conduct.

Compared to Boomers, Gen Z are 2.5x more likely to agree that it is OK to break the rules if needed to get the job done. Further, nearly a quarter of Gen Z report that they have personally engaged in unethical conduct.



## 6. Hybrid is the Goldilocks of work arrangements.

Employees in hybrid work arrangements consistently report more favorable perceptions across all cultural dimensions. Additionally, they observe misconduct at a slightly lower rate than their fully in-office counterparts and report their observations at slightly higher rates.



# Dimensions of ethical culture

To understand ethical culture, we asked a series of questions that map to the following dimensions:

## What we measure

### Corporate ethics
Do employees perceive the organization as purpose-driven and ethical?

### Leadership modeling
Do leaders model and reinforce the importance of ethical behavior?

### Psychological safety
Do employees feel safe and supported to voice their opinions, share ideas, and report improper behavior?

### Principled performance
Do employees behave ethically, even and especially when under pressure?

### Organizational justice
Are standards of conduct applied consistently, and do employees trust the process?

### E&C program impact
Is the E&C program (training, code of conduct, policies, communications) useful and relevant to employees?

### Incentives
Are employees rewarded and recognized for how they do things, not just what they achieve?

### Trust
Is trust demonstrated and fostered within and across all levels?

### Transparency
Is information shared openly and honestly?

### Misconduct & reporting
Has misconduct been observed? What types of misconduct are occurring and how is it being reported (or not)?

For the purpose of analysis, LRN categorizes ethical culture as being strong, moderate, or weak, based on the average of all ethical culture items (see Methodology for more detail).

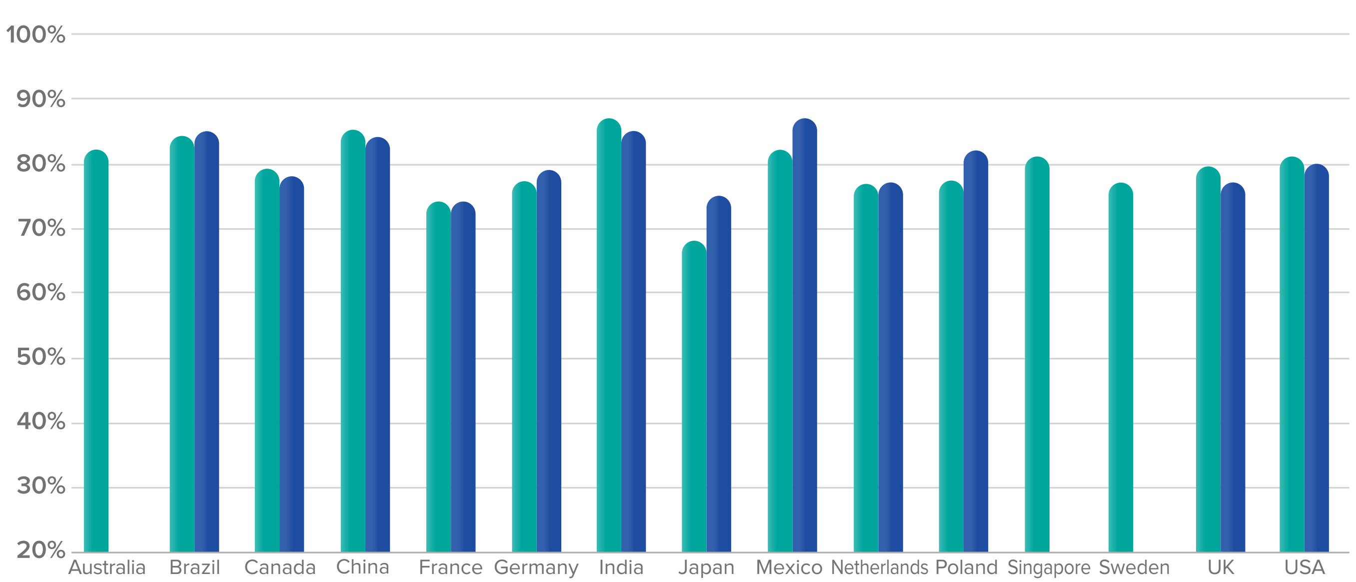
# Detailed findings

## Ethical culture around the world

In general, ethical culture is moderately strong around the globe. Most countries score above 70%, with the exception of Japan. Comparing results to the last time we conducted this research in 2021, average ethical culture scores remained fairly consistent with a few exceptions: Japan, Mexico, and Poland have seen their scores decrease slightly. Businesses and employees in Poland, of course, have been operating under extremely stressful and challenging conditions since Russia's invasion of Ukraine, so this decrease is no surprise.

Our national identity, traditions, and norms naturally show up in and influence our company culture, and perhaps explain some of the variation in results across countries. Nevertheless, the trends are consistent. For example, across all 15 countries surveyed, the dimension of Psychological Safety was the lowest- or second lowest-scoring, indicating that companies everywhere have some work to do to cultivate workplace environments where employees feel safe and supported to voice their opinions, share ideas, and report improper behavior.

### Average ethical culture score by country



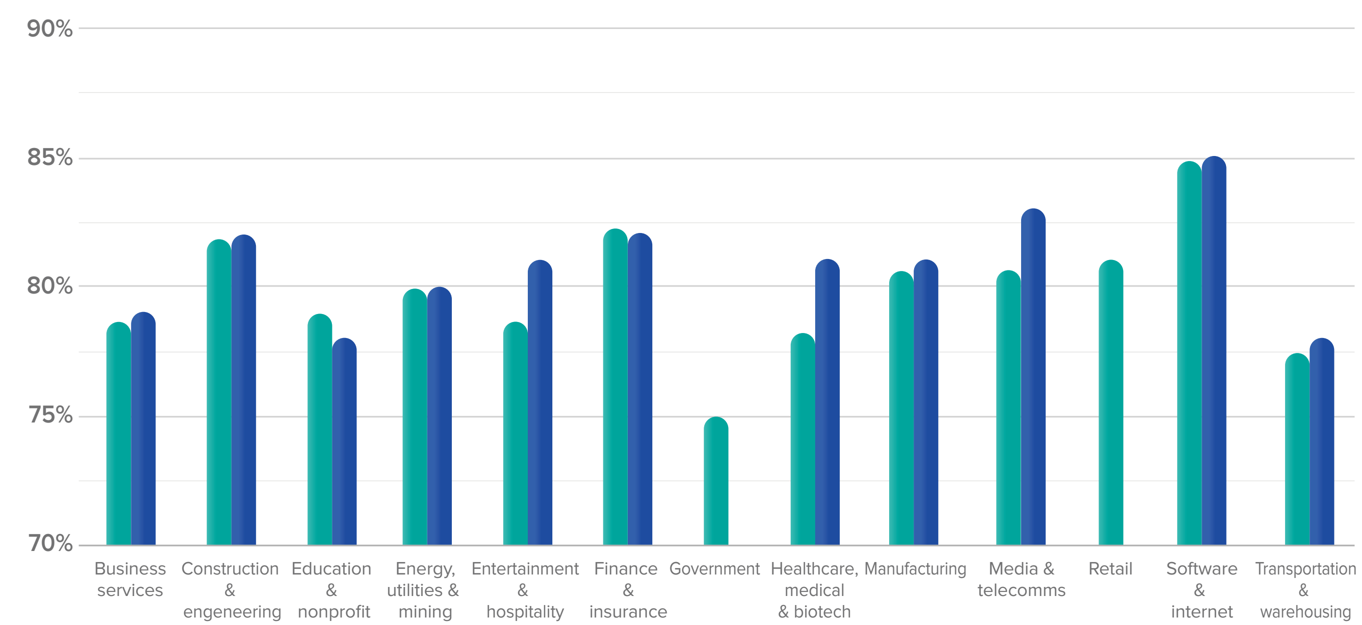

Average of all culture items on a scale of 1-5, converted to a %.
Australia, Singapore, and Sweden were not included in 2021.



## Ethical culture across industries

We see less variation in ethical culture across industries than we do across countries. Despite recent turbulence in the tech industry, **software & internet scores the highest**—as they did in our 2021 research, too. In general, average ethical culture scores either remained consistent or decreased slightly relative to 2021. Healthcare, medical & biotech experienced the greatest decrease, perhaps due to continued tailwinds from the COVID pandemic.

### Average ethical culture score by industry




Average of all culture items on a scale of 1-5, converted to a %.
Government & retail were not included in 2021.

# Culture's impact on performance and risk

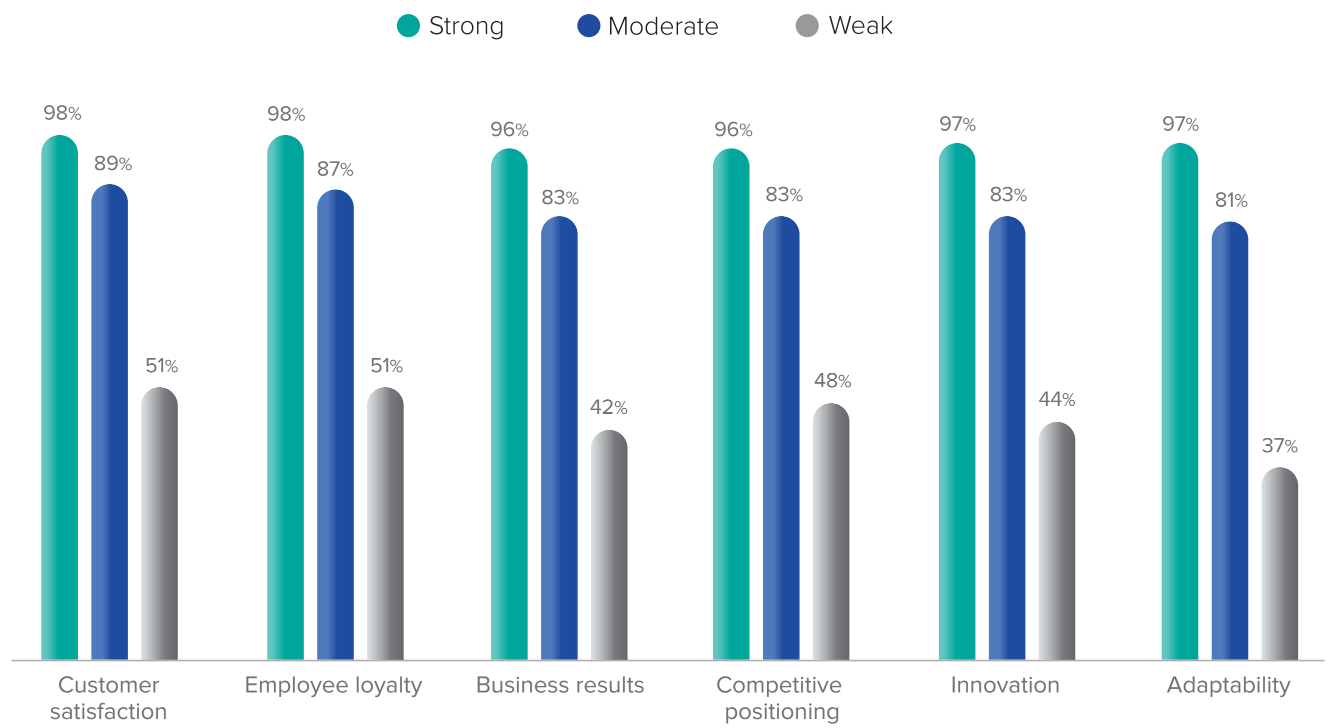
## Strong ethical cultures outperform

We know that culture impacts business results, but how much? Using statistical modeling, we found that 69% of the variance in business performance can be attributed to ethical culture. It follows, then, that organizations with **strong ethical cultures outperform, by an approximately 50 percentage points more** than organizations with weak ethical cultures.

Not only is this gap significant in its size, it represents a meaningful increase from similar research we conducted in 2021, which found a 30 percentage points gap between organizations with strong and weak ethical cultures in these traditional metrics of business success. This increased gap is driven largely by the ethical culture score of low-impact cultures *decreasing* from 2021.

The difference in this year's data is most pronounced when it comes to an organization's ability to adapt quickly to internal and external change: **respondents from organizations with strong ethical cultures rate their company as adaptable 2.6x more** than those from weak cultures. Adaptability is a critical determinant of a company's resilience, and never more important as the global business landscape continues to grow more complex. These organizations also outperform on business results and innovation at a rate 2.3x and 2.2x higher than those with weak ethical cultures.

### Organizations with strong ethical cultures outperform



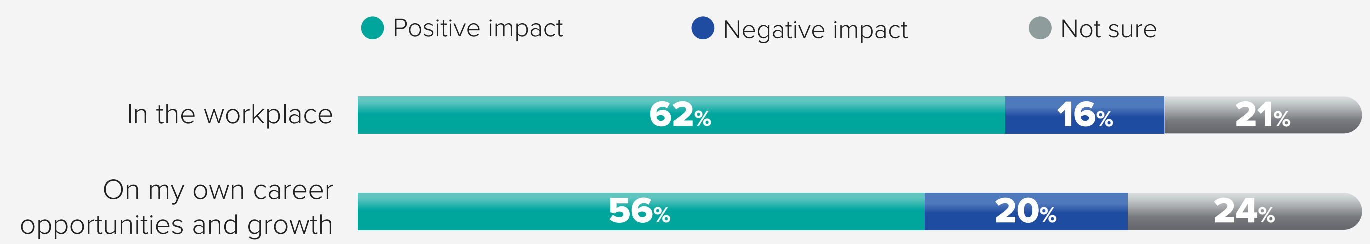

Average score, converted to a %



# Exploring employee perceptions: The impact of AI in the workplace

Although AI (Artificial Intelligence) has been used in business for decades, it wasn't until the introduction of generative AI, and specifically the launch of ChatGPT in late 2022, that "AI" became a term broadly known and understood (or misunderstood). We wanted to understand: how are employees reacting to the seemingly overnight rise of AI, and what are their thoughts on its place in work and on our careers?

### How do you feel about the emergence of artificial intelligence (AI)



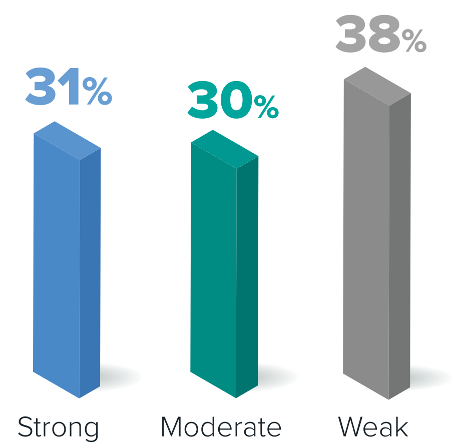

While a majority of our respondents think AI will have a positive impact in the workplace and on their own careers, a fair number have a more pessimistic outlook and a sizeable share simply aren't sure yet. We did, however, find a significant relationship between how one rates their organization on adaptability and positive perceptions of AI in the workplace. **For every unit of increase in adaptability scores, there is a 1.7x increase in viewing AI's impact on the workplace as positive**. Put another way, if an employee believes and experiences their organization as adaptive and resilient, they are more likely to be receptive to the potential benefits of AI.

## Strong ethical culture reduces risk

In addition to superior business performance, we found that organizations with strong and moderate ethical cultures have lower rates of observed misconduct, compared to those with weak ethical cultures. Crucially, employees in organizations with **strong cultures are more likely to report their observation at a rate 1.5x higher** than those in weak cultures. As companies can only address that which they are aware of, this higher level of reporting represents a significant reduction in risk.

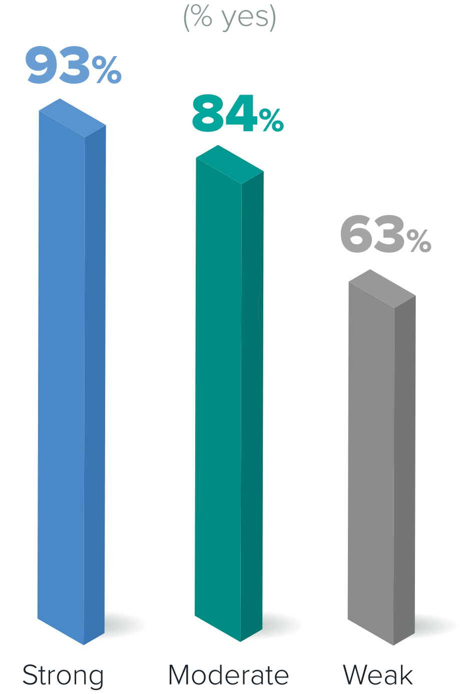
I have observed employee misconduct or unethical behavior in the past 12 months.

(% yes)




[IF YES] Did you report your observation of misconduct or unethical behavior?

(% yes)




Having a robust reporting system, coupled with a credible investigation and disciplinary process that is understood and trusted by employees, is good for business. But, as LRN's *2024 Ethics & Compliance Program Effectiveness Report* highlights, a majority of companies globally lack basic hotline features, such as links to their non-retaliation policy or an explanation of how complaints are handled. Indeed, only 55% of companies enable anonymous reporting.

Companies should be further incentivized to invest in this area following the US Department of Justice's March 2024 announcement that it is launching a new whistleblower program that will, in part, provide monetary rewards to individuals that report corporate or financial misconduct. Deputy Attorney General Lisa Monaco was explicit about the motivation for this new program in her remarks: *"Used proactively, this program will fill gaps. It will create new incentives for individuals to report misconduct to the Department. And it will drive companies to invest further in their own internal compliance and reporting systems."*

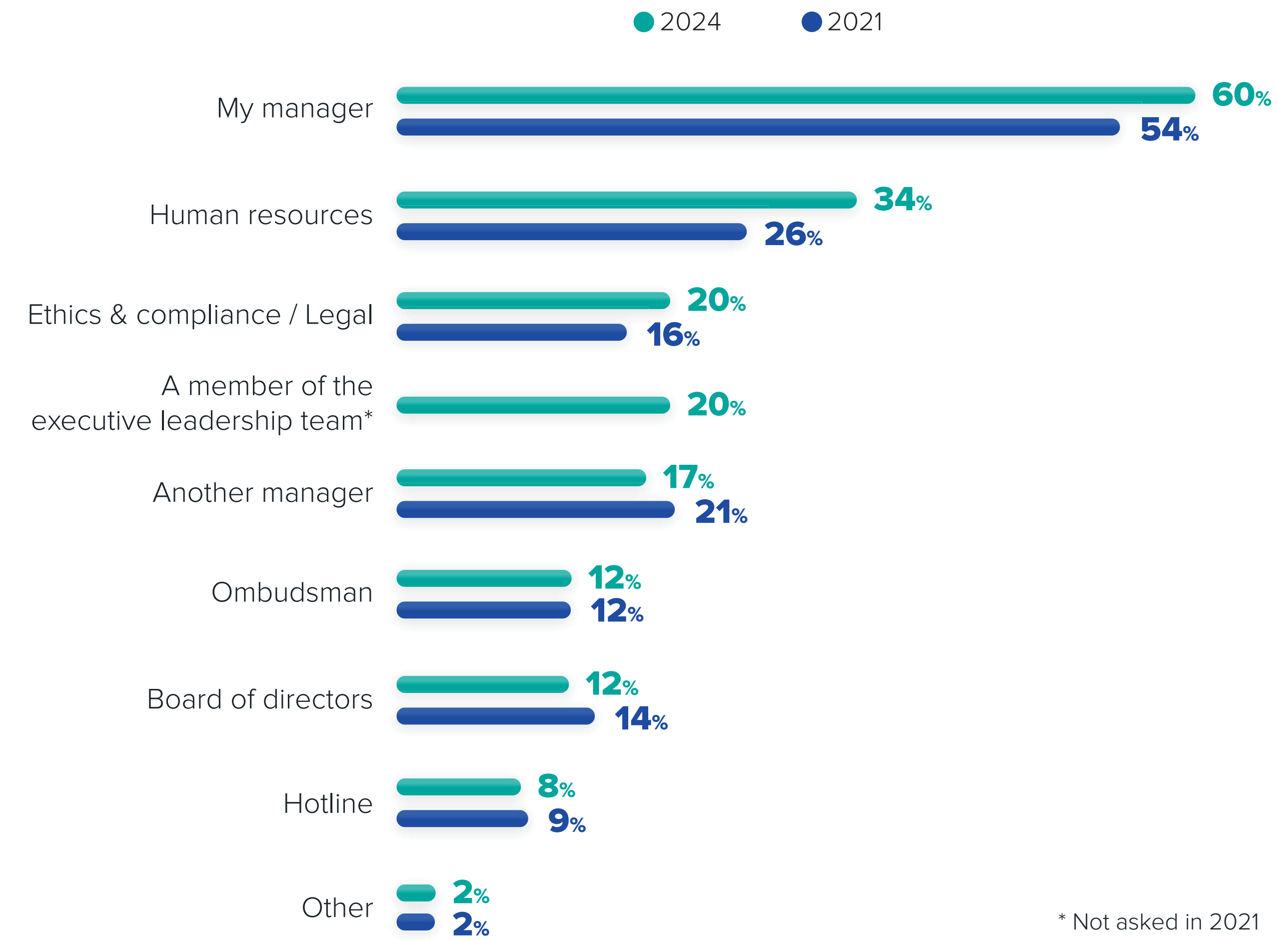
# Misconduct and reporting trends

Overall, 33% of our sample indicated they had observed misconduct or unethical behavior in the past year, representing a slight decrease compared to our 2021 research (37% observed). Harassment or discrimination and conflicts of interest, followed by employee health and safety, were by far the most common types of misconduct observed.

Of those that *had* observed misconduct, 79% reported their observation. The majority (60%) raised their concern to their direct manager—an increase of 6 percentage points from 2021. When adding in those that raised their observation to another manager (not their direct manager), this data suggest fully three-quarters of employee concerns are being mediated, at least initially, by management. We're encouraged by this trend, as it is an indicator of trusting relationships and enables a human exchange about potentially sensitive risk factors. However, it underscores the importance of equipping managers to respond appropriately to employees' concerns: following applicable process and procedure, but also in their behavior, language, and mannerisms.

## Reporting channels

(Select all that apply)




* Not asked in 2021

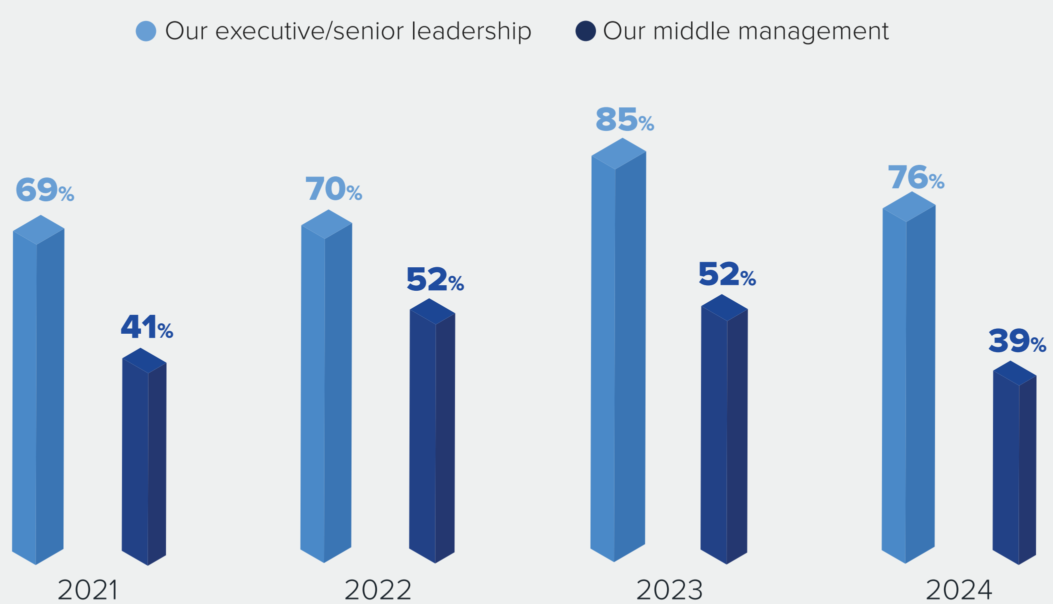
*33% of respondents have observed misconduct or unethical behavior in the past year. Of those, 79% reported their observation.*

# Walking the talk of company values

Leaders set the tone for those in the organization and have an outsized impact on culture. LRN's *2024 Ethics & Compliance Program Effectiveness Report* finds that most senior and executive leaders walk the talk of company values, using them as guides when making difficult decisions. But middle managers, not so much. In fact, this year's gap between leaders and middle managers (37 percentage points) is the largest since LRN began tracking this topic. Middle managers, as those with whom most employees directly interact, are visible role models. And, as the Department of Justice's *Evaluation of Corporate Compliance Programs* guidance notes, they play a key role in balancing business goals and ethics. This gap highlights the opportunity companies have to better support managers in operationalizing organizational values more effectively.

## In the past 12 months, our organization's leaders have made difficult decisions consistent with our company values and purpose

(% Yes)

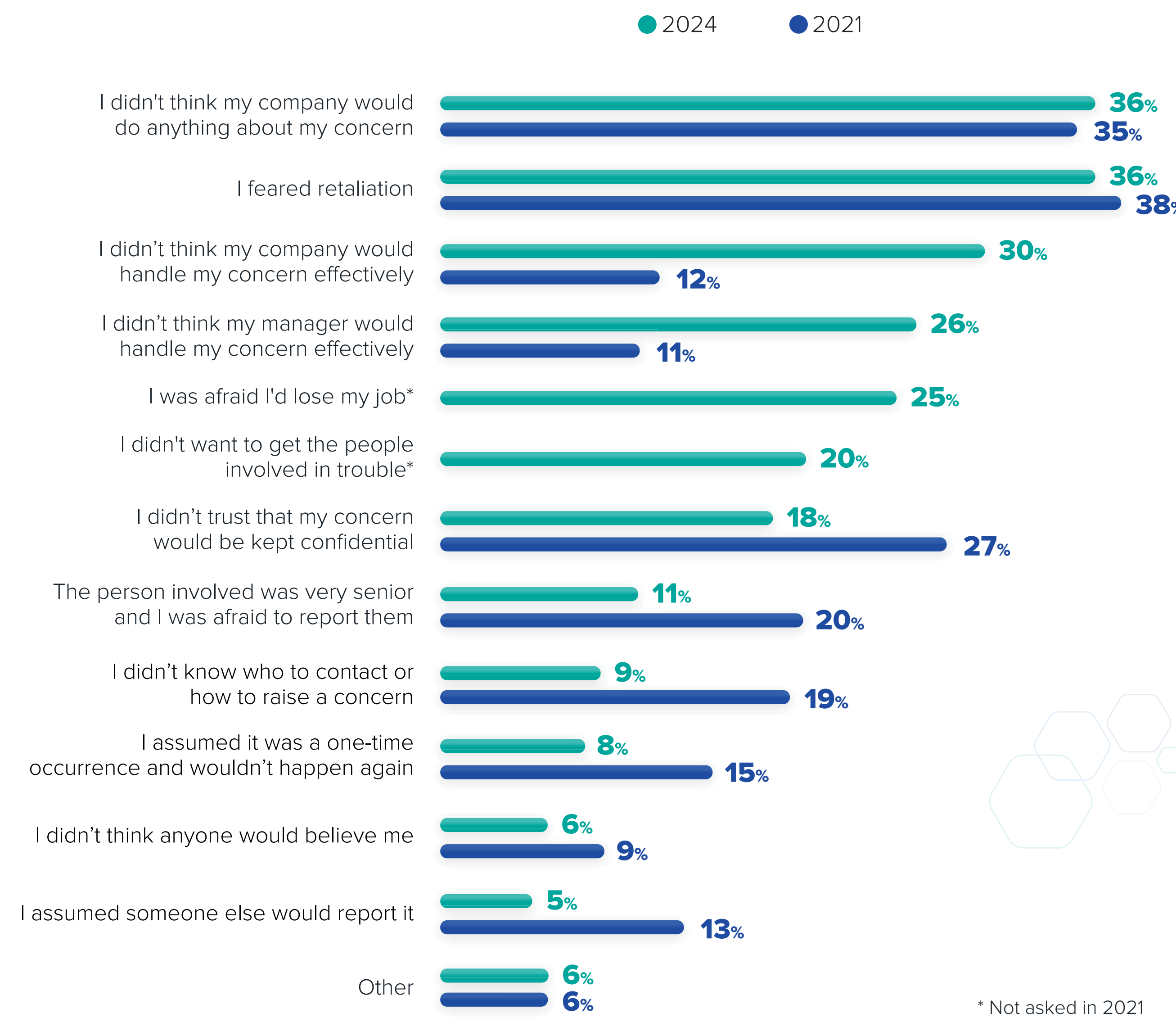



Of course, 79% reporting their observation means that 21% didn't. Lack of knowledge isn't to blame for the gap: only 9% said they didn't know who to contact or how to raise a concern. Nor is apathy: only 5% assumed someone else would report the incident or didn't report because they assumed it wouldn't happen again (8%).

Instead, the top barriers overwhelmingly signal a lack of trust in the system of procedural justice: participants didn't think their company would do anything about their concern or handle it effectively, nor do they think they would be protected from retaliation. Moreover, the percentage indicating they didn't think their company or manager would handle their concern effectively more than doubled relative to 2021.

## Barriers to reporting

(Select all that apply)




* Not asked in 2021



## Pressure to perform: justifying unethical behavior?

It's easy to do the "right thing" when it's easy; it is far harder when under pressure to meet production timelines, sales goals, and other business objectives. To understand current dynamics around pressure to perform, we asked a series of questions and the results were sobering:

- 66% agree that "employees do not feel pressured to achieve business objectives if it means acting unethically";
- 23% actively agree that "it is OK to break the rules if needed to get the job done"; and
- 14% say that they themselves have "engaged in behavior that violated their company's Code of Conduct or standards" in the past year.

So how can organizations encourage ethical behavior and decision-making; what LRN calls "principled performance"? Regression analysis on our data identified the most powerful drivers – explaining 77% of the variation in principled performance – as:

- Belief that your company doesn't compromise values to achieve business objectives
- Having a manager whom you perceive is ethical
- The presence of performance management and recognition programs that reinforce and incentivize ethical behavior
- A team environment characterized by trust
- An environment where colleagues can question actions that don't align with your company's values or standards

The importance of these drivers is reflected in US Department of Justice guidance, which asks "How have senior leaders, through their words and actions, encouraged or discouraged compliance...? How have they modelled proper behavior to subordinates? Have managers encouraged employees to act unethically to achieve a business objective...? Has the company evaluated whether commercial targets are achievable if the business operates within a compliant and ethical manner? How does the company incentivize compliance and ethical behavior?"

Encouragingly, our *2024 Ethics & Compliance Program Effectiveness* research finds that significantly more than half of the programs surveyed have incorporated ethical behavior into performance systems, major hiring decisions, promotion, and bonuses—with high-performing programs nearly 2x more likely to evaluate ethical behavior against these areas.

# The importance of psychological safety

"Speak up culture" has been a top priority for ethics and compliance functions for decades, with the focus primarily on encouraging employees to report misconduct. In recent years, however, we have broadened our aperture. Rather than "how do I get my employees to speak up", the effective leader asks, "how can I create an environment where employees feel safe, empowered, and encouraged to speak up?" After all, how can we expect employees to raise their hand when they see something wrong if we don't listen to them and invite their perspective in the normal course of work?

This broader, more holistic view is often called psychological safety, which LRN defines for the purpose of this research as an environment where employees can share their ideas and opinions, voice concerns, ask questions, make mistakes, and "speak up" in the more traditional sense.

To understand the conditions in which psychological safety thrives, we conducted statistical modeling which identified the following drivers:

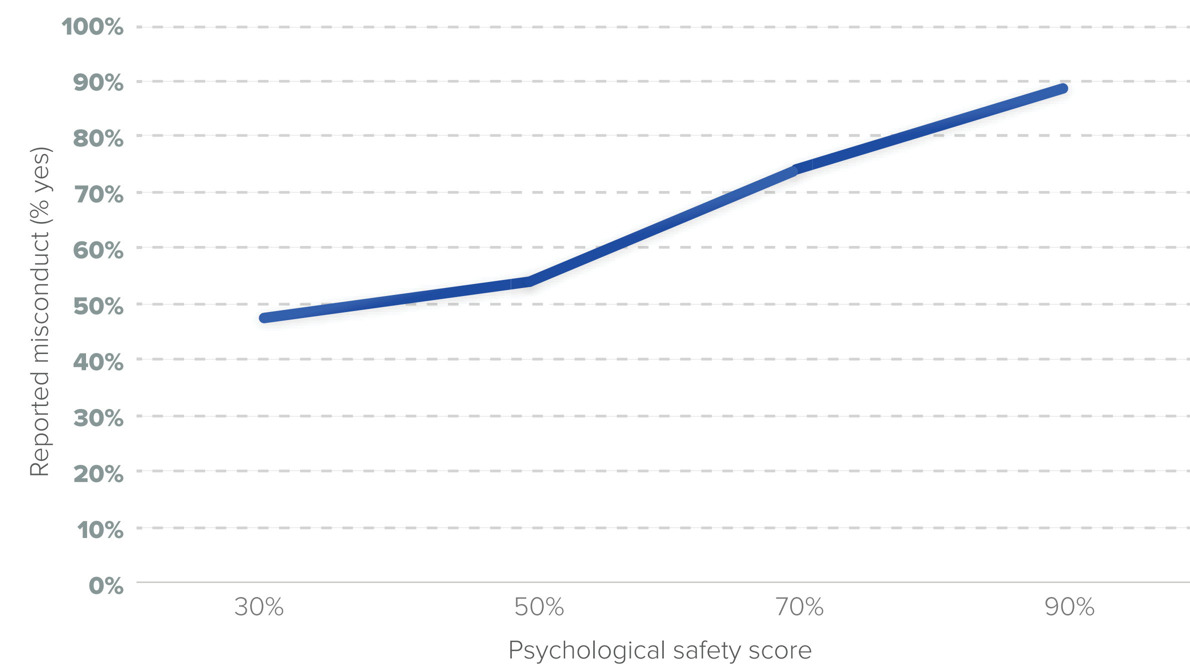
- Leadership modeling: Managers that actively encourage their teams to share ideas and suggestions, view mistakes as opportunities to learn, set the expectation that work is conducted ethically, and are themselves ethical.
- Organizational justice: Holding everyone to the same standards of conduct, consequences for unethical conduct, handling employee concerns effectively, and protecting those who raise concerns in good faith from retaliation.
- Principled performance: Colleagues who behave ethically, even and especially when under pressure to perform.

The other dimensions of ethical culture together explain an astonishing 80% of the variation psychological safety. Think of these drivers as the strongest "levers" that, if pulled or adjusted, will have the greatest impact in increasing psychological safety.



Why do we care? While intuitively we may expect that high psychological safety would translate into higher reporting of misconduct, statistical modeling quantifies the relationship. Specifically, for every unit increase in psychological safety, the likelihood of reporting misconduct is 2.4x higher. **Of all ethical culture dimensions, psychological safety was the greatest predictor of reporting misconduct.**

## Psychological safety and reported misconduct




Average of Psychological Safety items on a scale of 1-5, converted to a %

A psychologically safe workplace carries other organizational benefits, beyond higher rates of reporting. We see a correlation between psychological safety and employees' loyalty to their company (as measured by their intent to remain with their company for the next 2 years), as well as levels of innovation. When psychological safety is high, respondents are:

- 2x more likely to intend to stay at their company
- 2.3x more likely to agree their company innovates their products and/or services

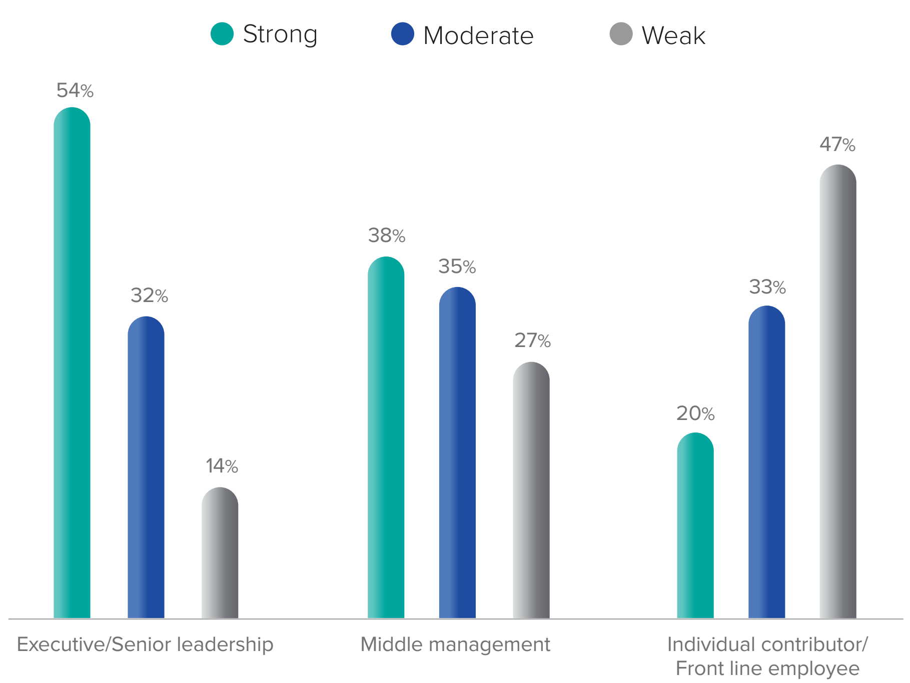
# How does ethical culture vary, depending on who – and where – you are?

As every business leader knows, there is no such thing as "one" company culture; it exists in microcosms that together make up the whole. In addition to conducting a broad survey of ethical culture around the world, we wanted to dig a bit deeper and explore how ethical culture was consistent—or not—based on different employee subgroups. This is what we found.

## Leadership disconnect

There is a divide in the experience of senior leaders, middle management, and individual contributors. Executive and senior leaders are **2.6x more likely to indicate their organization has a strong ethical culture** than individual contributors and front-line employees. These results are consistent with our 2021 research.

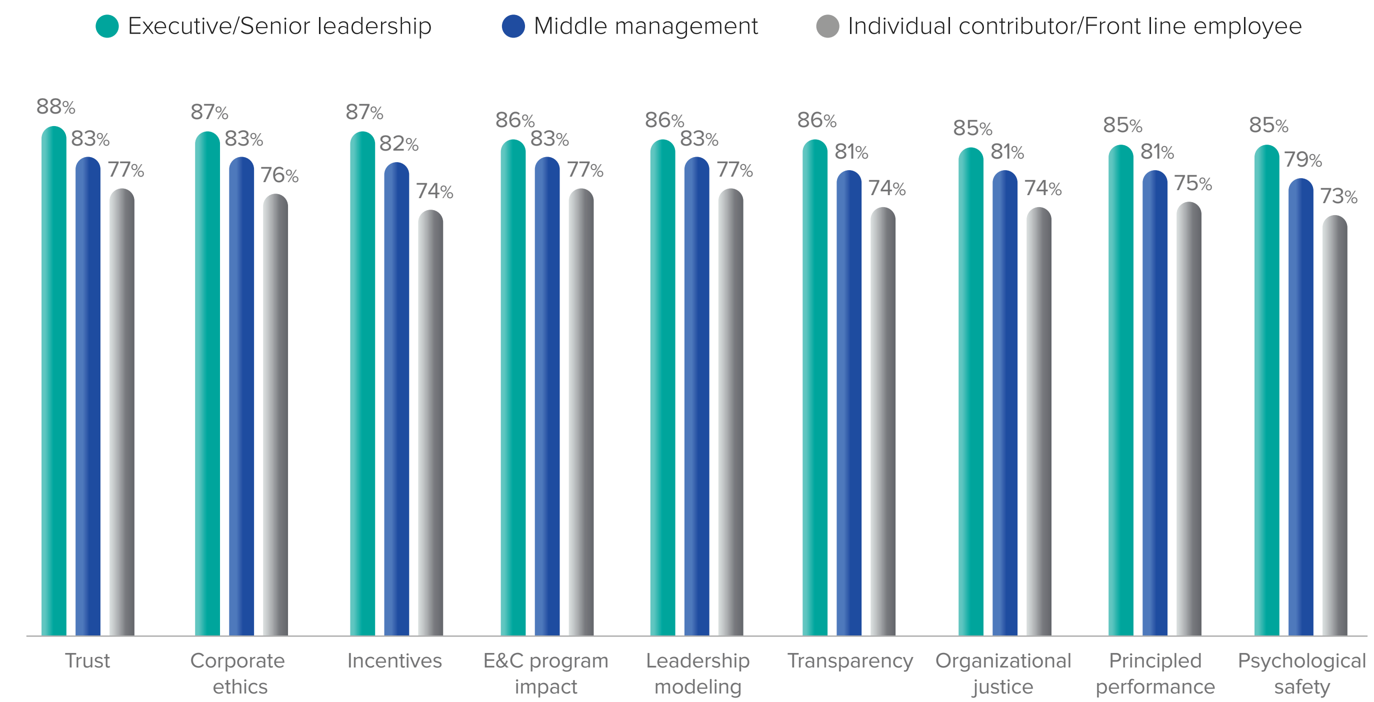
### Leadership disconnect




Percentage of participants who fall into the three culture archetypes

The largest gap is in perceptions of how (or if) the company incentivizes ethical conduct; individual contributors and front-line employees rated this 13 percentage points below executive and senior leaders.

### Dimensions of ethical culture, by role level




Average of items in each dimension on a scale of 1-5, converted to a %

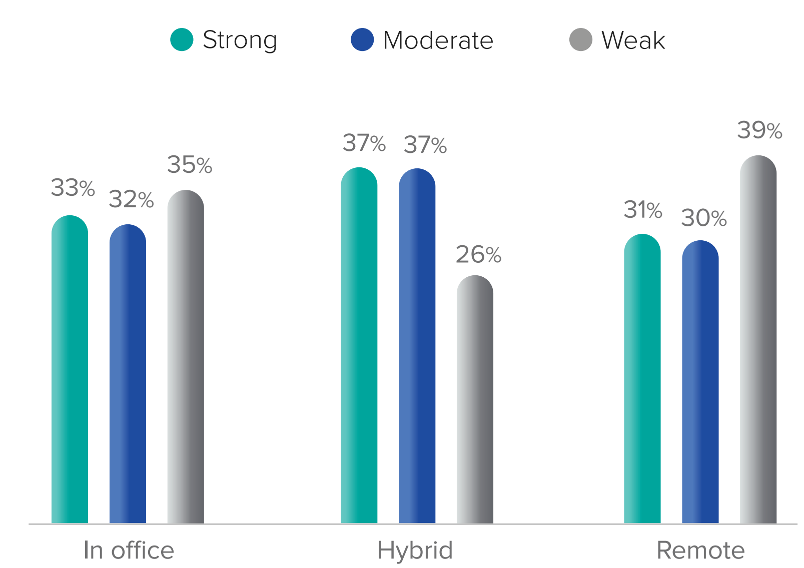
The "leadership disconnect" is a long-studied corporate dynamic, whereby the further up the corporate hierarchy one is, the rosier one's glasses tend to be. Our data reinforce this concept with executive/senior leadership reporting scores on average about 11 percentage points higher than those of individual contributors across all dimensions of culture. Given leadership's outsized role in shaping organizational culture, it is imperative that leaders establish mechanisms to gain feedback from employees at all levels to truly understand how these dimensions play out on the ground.

# Where you are: The impact of in-office, hybrid, or remote work arrangements

Much has been studied, written, and debated about the ideal work arrangement in our post-COVID business reality. Top-tier firms including Goldman Sachs, BlackRock, Amazon, Meta, and even Zoom have made headlines for strict return to office (RTO) mandates. However, the majority seem to have accepted a hybrid model, according to recent research by The Conference Board; only 4% of CEOs globally indicated they would prioritize bringing workers back to the office full-time, largely due to labor shortages and talent issues.

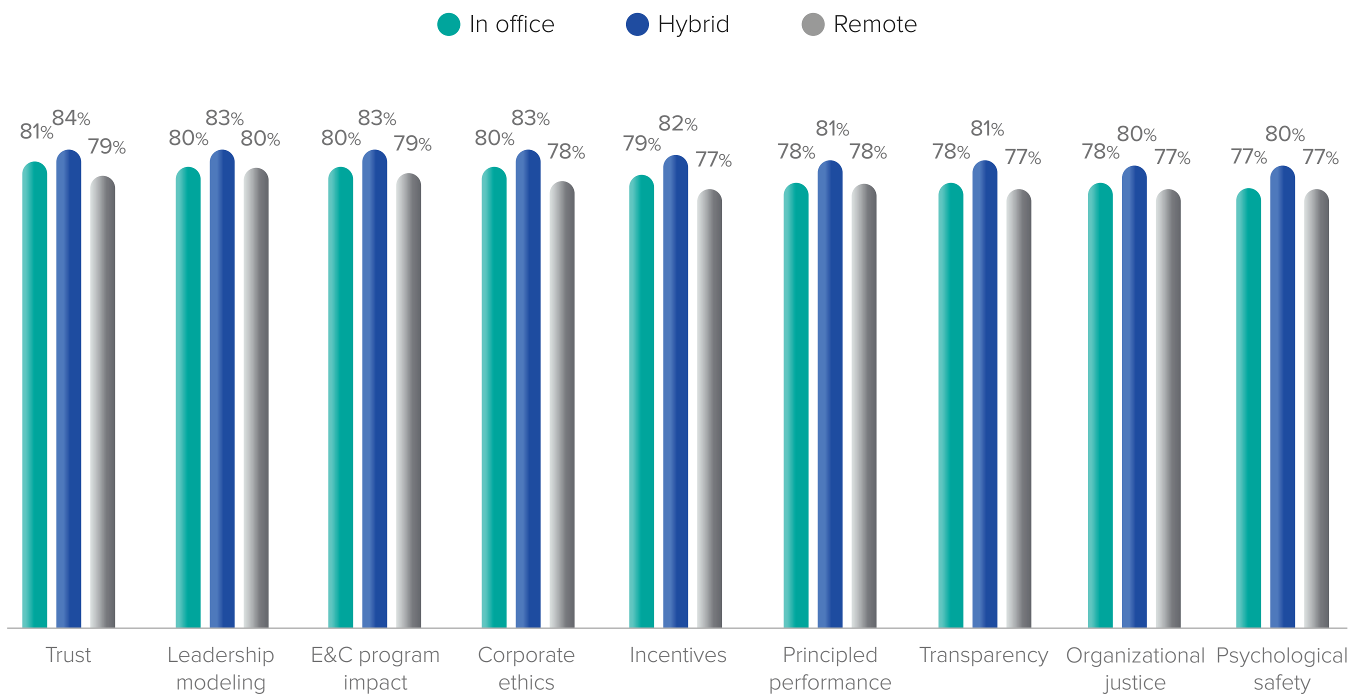
In our research, and across a variety of metrics, a consistent theme emerged: the hybrid work arrangement seems to be a happy medium, the Goldilocks "just right". Hybrid employees make up the largest share of those in organizations characterized as having a "strong" ethical culture, whereas remote employees are more likely to characterize their organization's ethical culture as "weak". This outperformance holds across all dimensions of ethical culture.

## Work arrangement and ethical culture




Percentage of participants who fall into the three culture archetypes

## Dimensions of ethical culture, by work arrangement

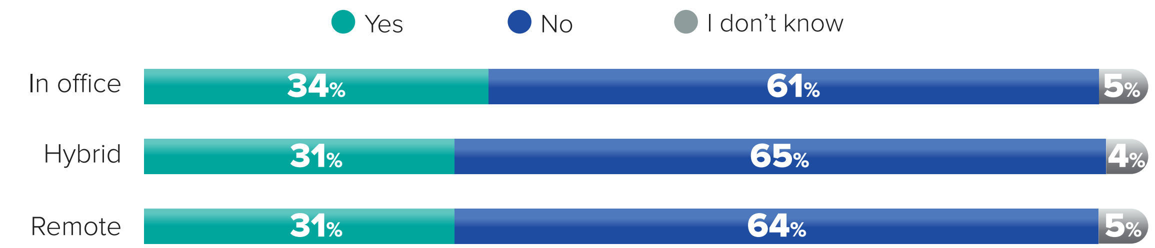



Average of items in each dimension on a scale of 1-5, converted to a %

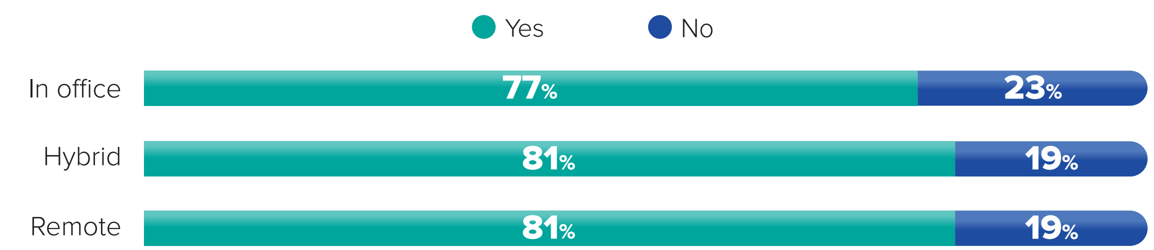
The benefits of hybrid and remote work are not just about flexibility; our research finds that these emplpyees also observe misconduct at a lower rate than their peers who are fully in-person. As an example, research by LeanIn.Org and McKinsey conducted in 2023 shows that "when women work remotely, they face fewer microaggressions and have higher levels of psychological safety." Our research also finds that hybrid and remote employees are more likely to report their observation of misconduct, perhaps because the removal of physical presence increases comfort levels.



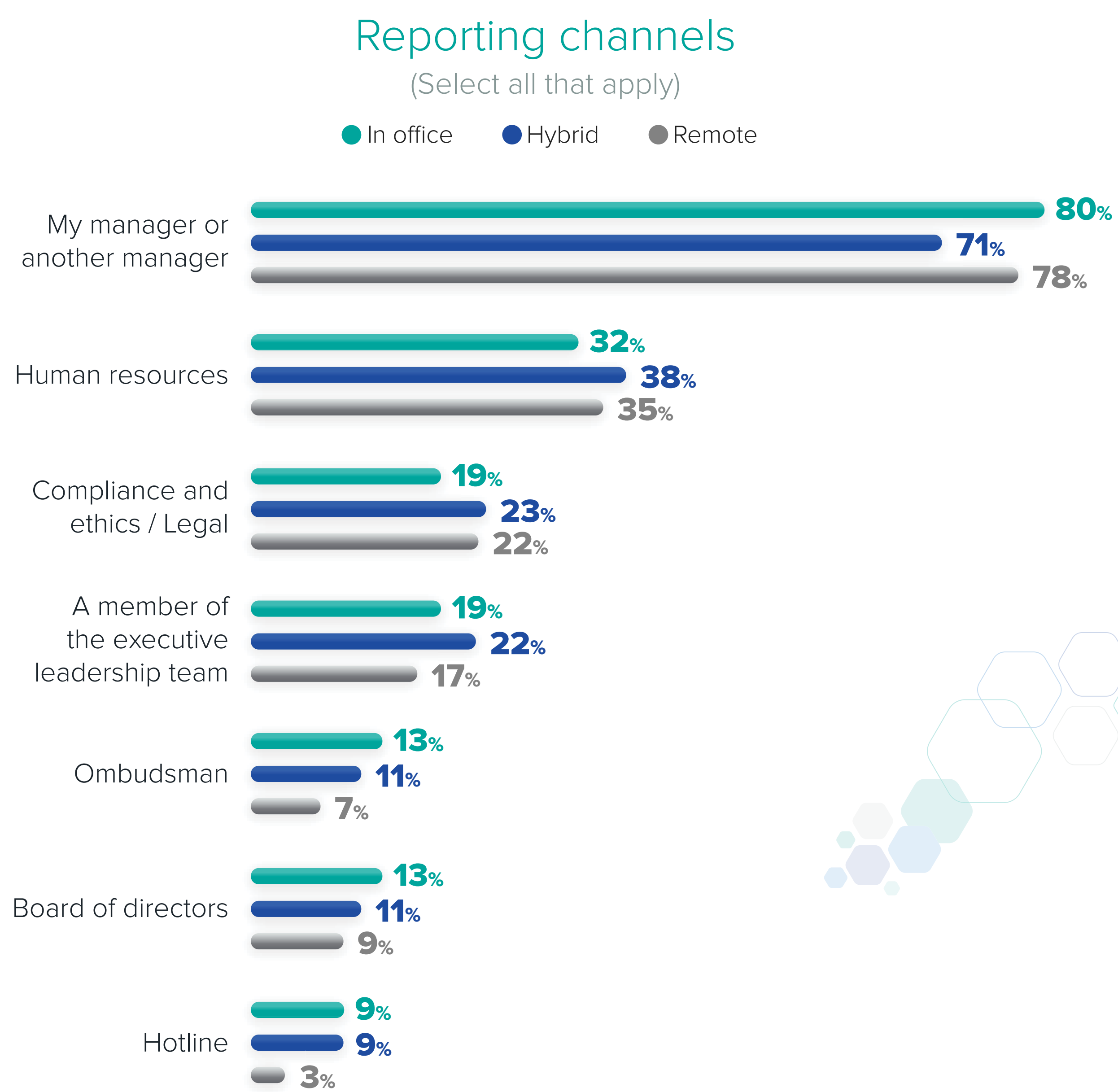
## Observed misconduct in the past 12 months

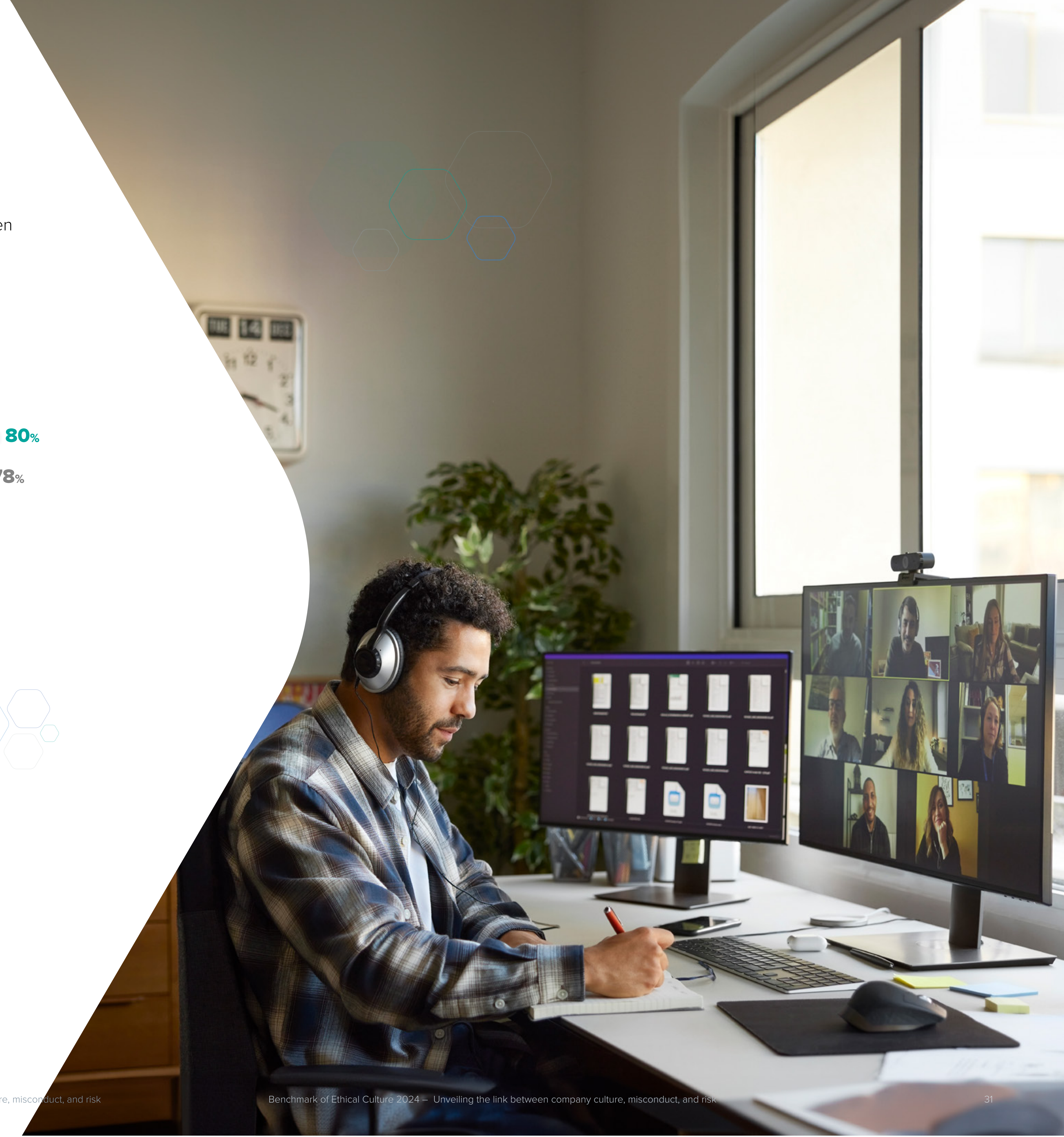



## Reported observation of misconduct




Supporting this hypothesis, we see that hybrid workers are less likely to raise their misconduct concerns to their direct manager or another manager; instead, they are more likely to turn to corporate channels such as HR and Ethics & Compliance, or even directly to the executive leadership team.

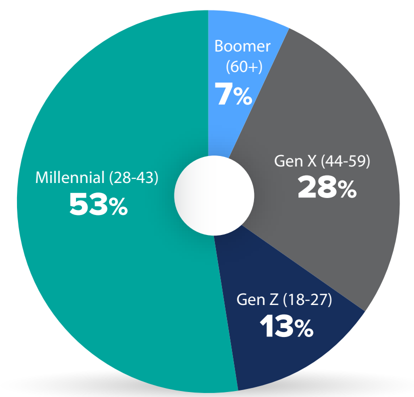


# Generational perspectives

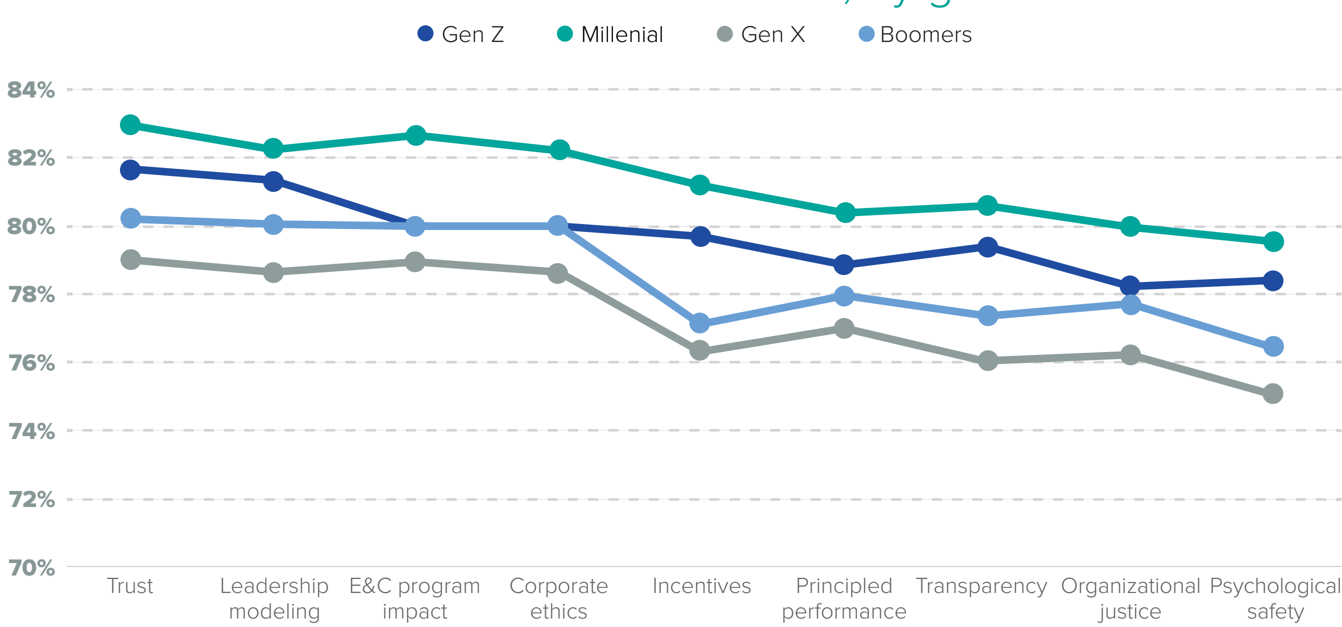
To study how ethical culture might vary by generation, we asked survey participants to select their age, and then grouped respondents according to the generational categories defined by the Pew Research Center.

## Respondent demographics, by generation




Our research reveals that Millennials achieve a significantly higher culture score compared to all other generations, while Gen X consistently scores lower.

## Dimensions of ethical culture, by generation

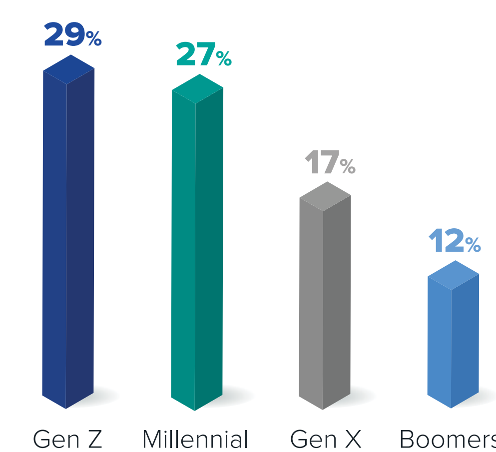



Average of items in each dimension on a scale of 1-5, converted to a %

We observed a stark difference in the tolerance for unethical conduct. **Gen Z are 2.5x more likely** to agree that it is OK to break the rules if needed to get the job done, compared to Boomers. Further, **nearly a quarter of Gen Z say they themselves have engaged in unethical conduct.** Although our data doesn't provide insight into *why*, the results are so pronounced that they suggest the need to tailor or diversify training and messaging with a generational perspective.

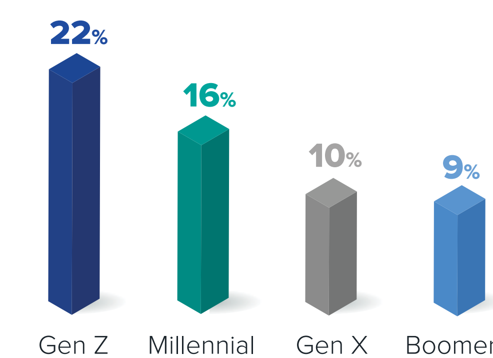
### It is okay to break the rules if needed to get the job done.

(% agree)




### In the past year, have you engaged in behavior that you think violates your company's Code of Conduct or standards?

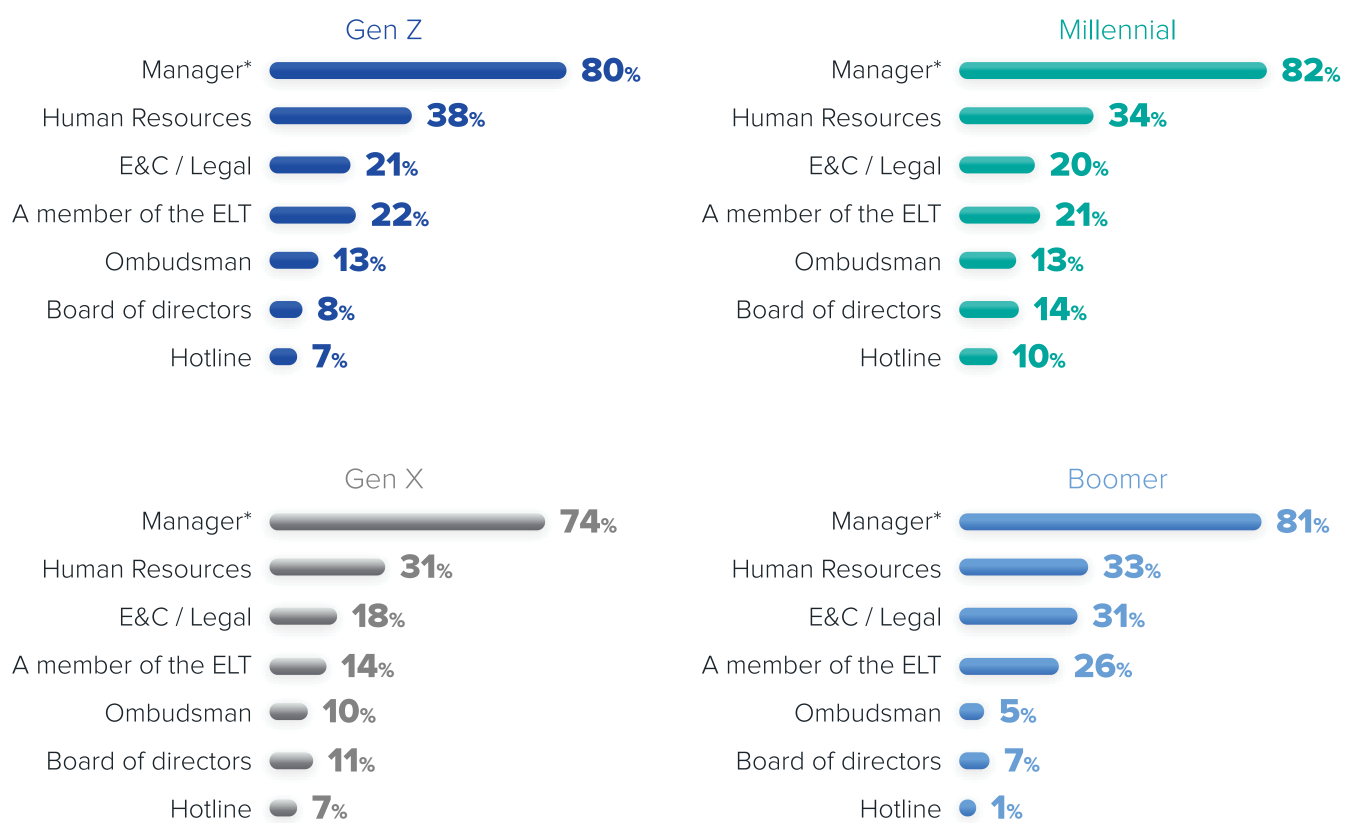
(% yes)




Continuing this thread, we also observed some variations in how employees use established reporting channels depending on their age. For example, only 1% of those in the Boomer generation used the hotline to report misconduct they had observed; instead, they were more likely than their younger peers to raise their concerns to Ethics & Compliance or Legal.

## Reporting channels

(Select all that apply)

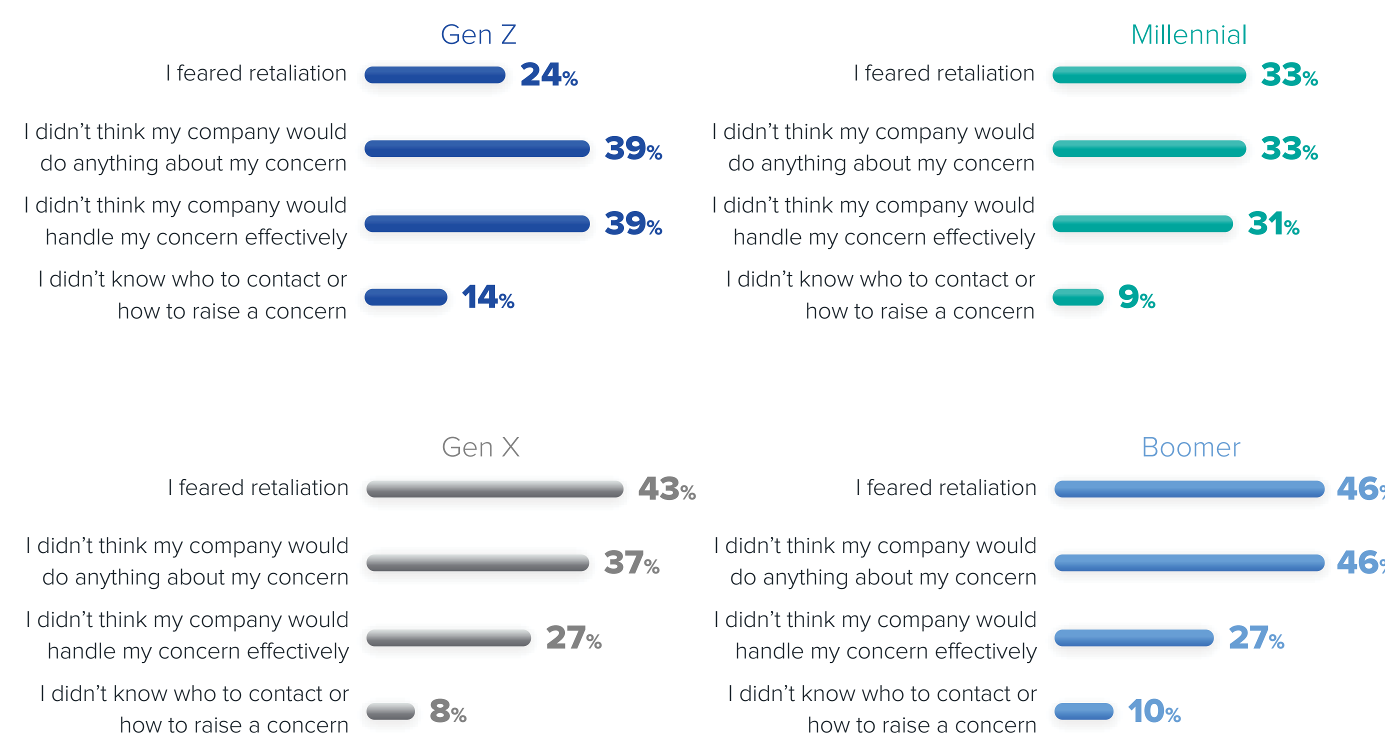



*Combination of "my manager" and "another manager"

Finally, we observed notable variations in the reasons participants gave for not reporting their misconduct concerns. Although fear of retaliation was a top barrier globally, it is less so for Gen Z: only 24% cited this reason, compared to 46% of Boomers.

## Barriers to reporting

(selected)





# Conclusion

Our research shows that good ethics is good business. All the trendlines point in the same direction: stakeholders hold business to a higher standard of behavior, decision-making, and workplace conduct; employees, customers, and investors care about how companies live up to their promises and are verifying the authenticity of public commitments to purpose, values, people, society, and planet; regulators have prioritized a focus on culture, introducing updated guidance, new incentives, and enforcement programs to encourage ethical conduct.

LRN's Benchmark of Ethical Culture presents a compelling case for investing in managing culture and provides clear linkages between ethical conduct, business performance, and risk. With it, we believe ethical culture is the tool for developing greater resilience and growth in an uncertain world.

# Methodology

LRN partnered with Sago (a leading global research partner) to conduct this study, leveraging our Ethics & Compliance Culture Assessment tool. The Assessment was developed with a recognition that culture matters and is arguably the most important driver of organizational success. Previously validated through our *2021 Benchmark of Ethical Culture report*, the LRN Ethics & Compliance Culture Assessment defines the characteristics of ethical culture and is informed by our 30 years of work and previous research on and frameworks of ethics, culture, leadership, values, and compliance.

The *2024 Benchmark of Ethical Culture* was designed to provide an updated global benchmark against which companies could plot their cultures against their peers and find a roadmap towards strong ethical environments.

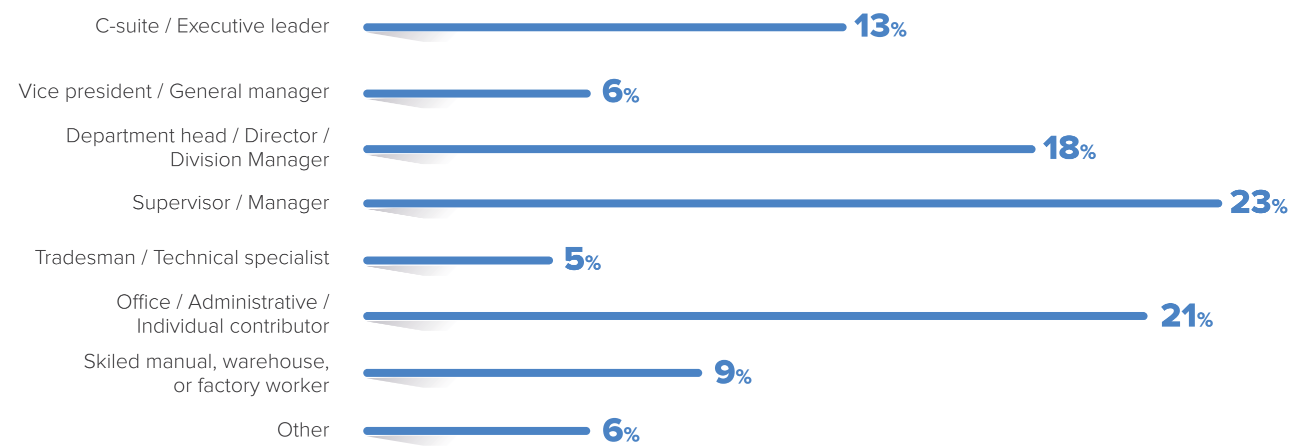
Data was collected from 8,526 full-time employees, spanning individual contributors to the C-suite across 13 industries and 15 countries, representing Asia-Pacific, Europe, North America, and South America. The study was provided in nine languages: Chinese (Simplified), Dutch, French, German, Hindi, Japanese, Polish, Portuguese (Brazil), and Spanish (Latin America). Quota sampling methodologies were employed to ensure that all groups were equally represented and statistically valid.

Following data collection, we conducted analyses to establish the reliability and validity of the nine dimensions of ethical culture. The relationship between various components of culture, business performance, and misconduct was explored using linear and logistic regression analyses and analysis of variance.

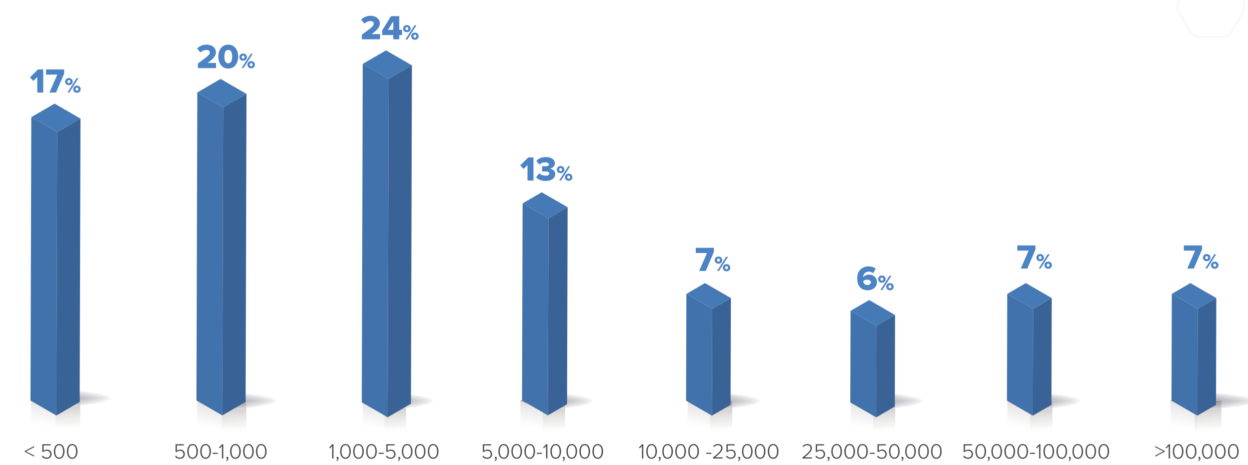
We divided participant responses into statistical tertiles based on their average ethical culture score; that is, the average of all questions rolling up to the dimensions of culture described in this report. These tertiles were assigned archetype names (Strong, Moderate, Weak) and were used to explore the differing impact of culture on ethical conduct and business performance across various demographic criteria.

# Participant demographics

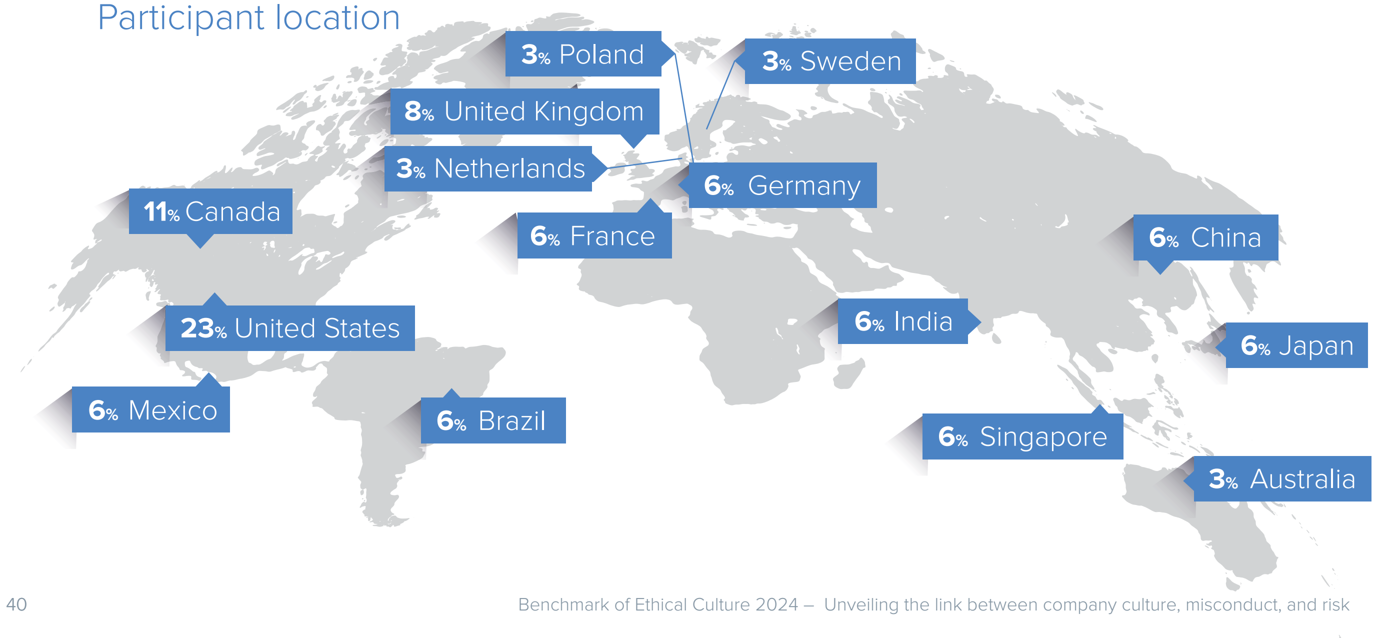
## Title




## Company size (# employees)

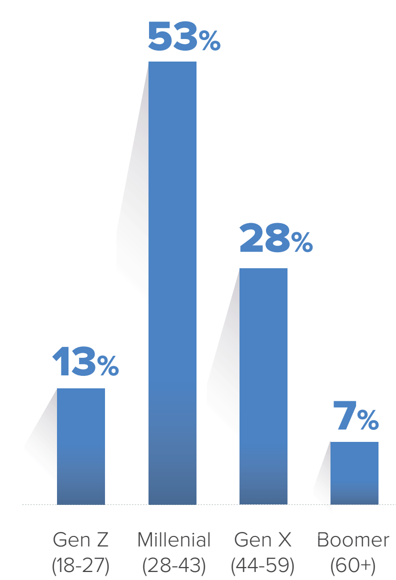



## Participant location

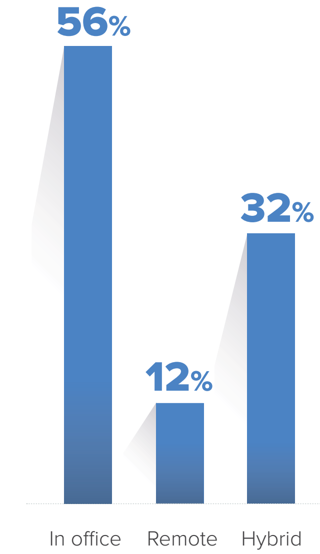




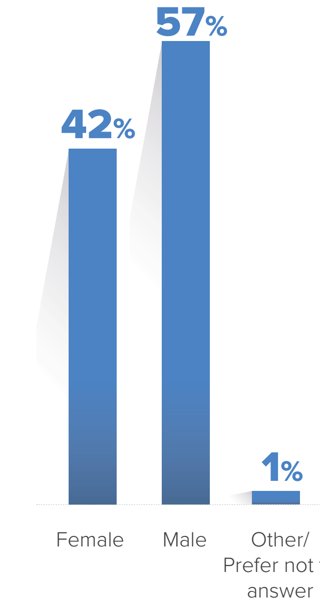

## Generation



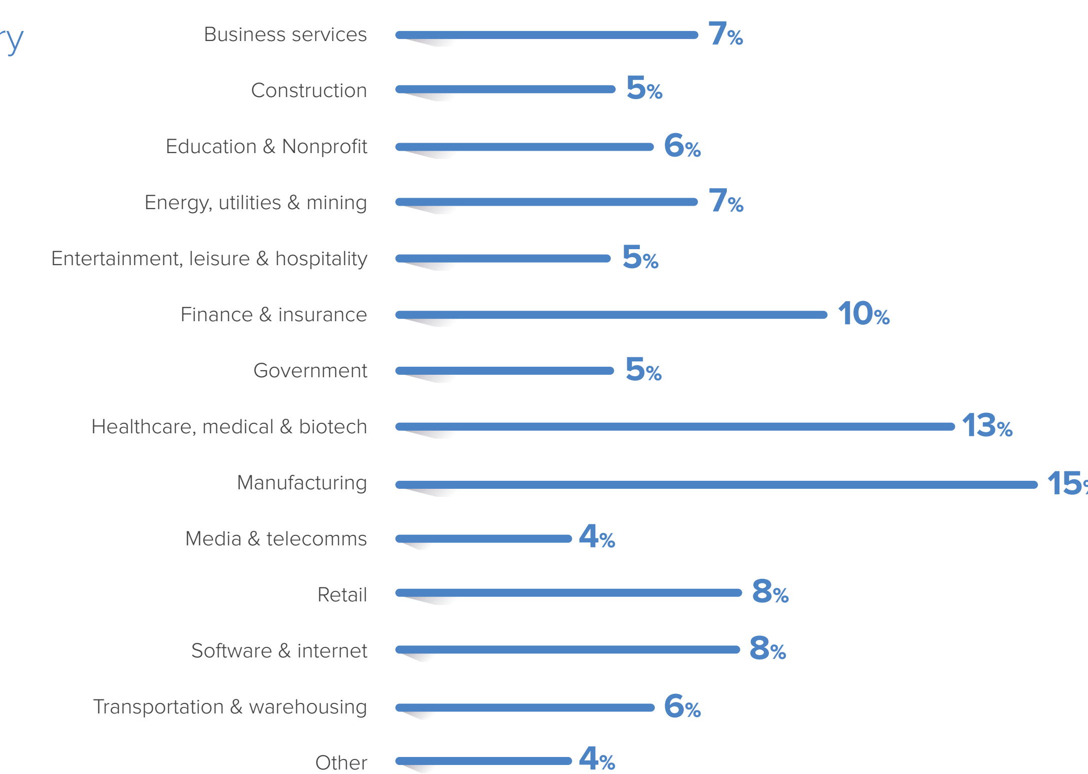

## Work arrangement




## Gender




## Industry



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