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03
the
TRUST
issue

PART 1

Are businesses
worldwide suffering
from a trust crisis?

PART 2

The new frontier of
business ethics

Are businesses worldwide suffering from a trust crisis?

01

In a globalized, highly interconnected world, trust is more important than ever to business success.

“Trust is like the air we breathe — when it’s present, nobody really notices. When it’s absent, everyone notices.” – Warren Buffett

The legendary American investor spoke the above quote following the 1991 Salomon Brothers bond trading scandal, in which traders submitted false bids in an attempt to corner the U.S. Treasury bond market. The scandal forced Buffett, a Salomon investor, to take over as interim chairman and root out unethical practices to help the firm avoid criminal prosecution. But Salomon Brothers was never the same; it eventually became part of Citigroup and most of its trading business was disbanded.

In the early 21st century, Buffett’s observation about trust in business has only become more apropos. The accounting scandals of 2001 to 2003 devastated corporate giants Enron and WorldCom among others, wiping out billions in shareholder value. And in 2008, widespread unethical lending practices triggered a global financial crisis from which it has taken a decade for many economies around the world to recover.

The widening impact of corporate misconduct in these cases highlights an irrefutable truth: In a globalized, highly interconnected world, trust is more important than ever to business success and sustainability over the long term. More than ever, integrity is the ultimate brand attribute. ➤

◀ Companies build trust on a daily basis in routine interactions with customers, consistently delivering on their promises or going to great lengths to rectify the situation when they cannot. They behave as if their customers' satisfaction and wellbeing are their most important considerations, leaving customers with a feeling of partnership rather than adversity. That means establishing a culture in which all employees understand that their own self-interest and the interests of the organization are aligned with — rather than unrelated to — the interests of their customers.

That may sound self-evident, but many organizational cultures — whether purposely or inadvertently — encourage opportunistic behavior. Poor moral leadership, performance incentives that lead employees to be single-mindedly hypercompetitive, lack of open and frequent discussion of ethical implications — such attributes make it more likely that employees will view relationships with customers and even fellow employees with a zero-sum mentality. In other words, they have a sense that their own success will come at the expense of others, which promotes ethical “blindness” and makes trusting relationships harder to sustain.

Worldwide, two-thirds of adults say corruption is widespread in business

Even for well-managed companies, establishing a reputation for integrity can be a challenge in the modern era, as employees, customers and investors in most countries start from a point of skepticism. Gallup's global research found that in 2017, 68% of adults worldwide believed corruption was widespread among businesses in their country. Worldwide, that figure has changed little over the past decade, though there has been significant movement in some individual countries, such as Germany.

Residents of more economically developed regions are generally less likely to say corruption is widespread in business; nonetheless, 60% of adults in the U.S. responded this way in 2017, as did 52% in Western Europe overall. Within Western Europe, however, there is a strong north/south gradient; the vast majority of residents in several southern nations — including Portugal, Spain and Italy — say corruption is widespread in their country's businesses, versus less than one-third in the Nordic states.

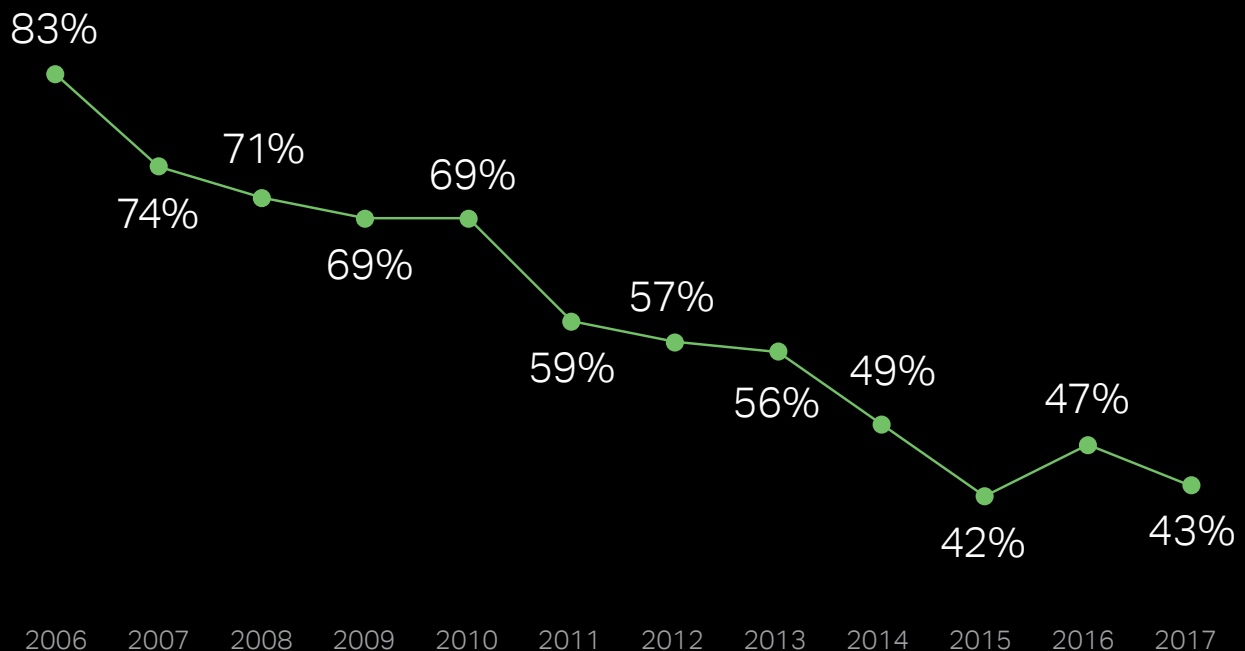
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Germans have seen a clear decline in business corruption since 2006.

Germany offers a striking exception to the lack of change in perceived business corruption among G20 countries. In 2006, 83% of Germans said corruption was widespread in the country's businesses; however, that figure dropped steadily over the ensuing decade to 43% in 2017.

Is corruption widespread within businesses in Germany, or not?

Percentage "yes"

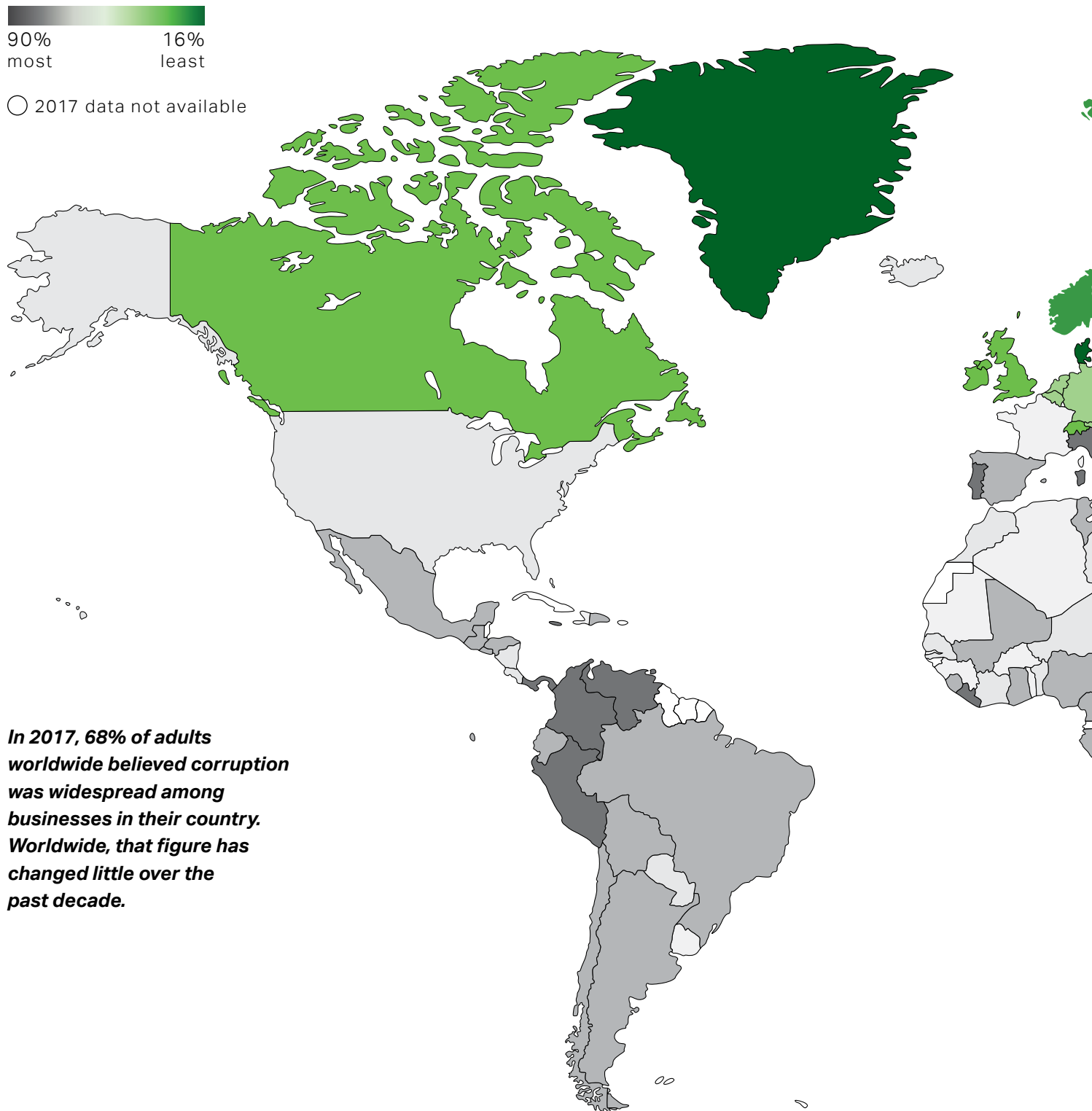


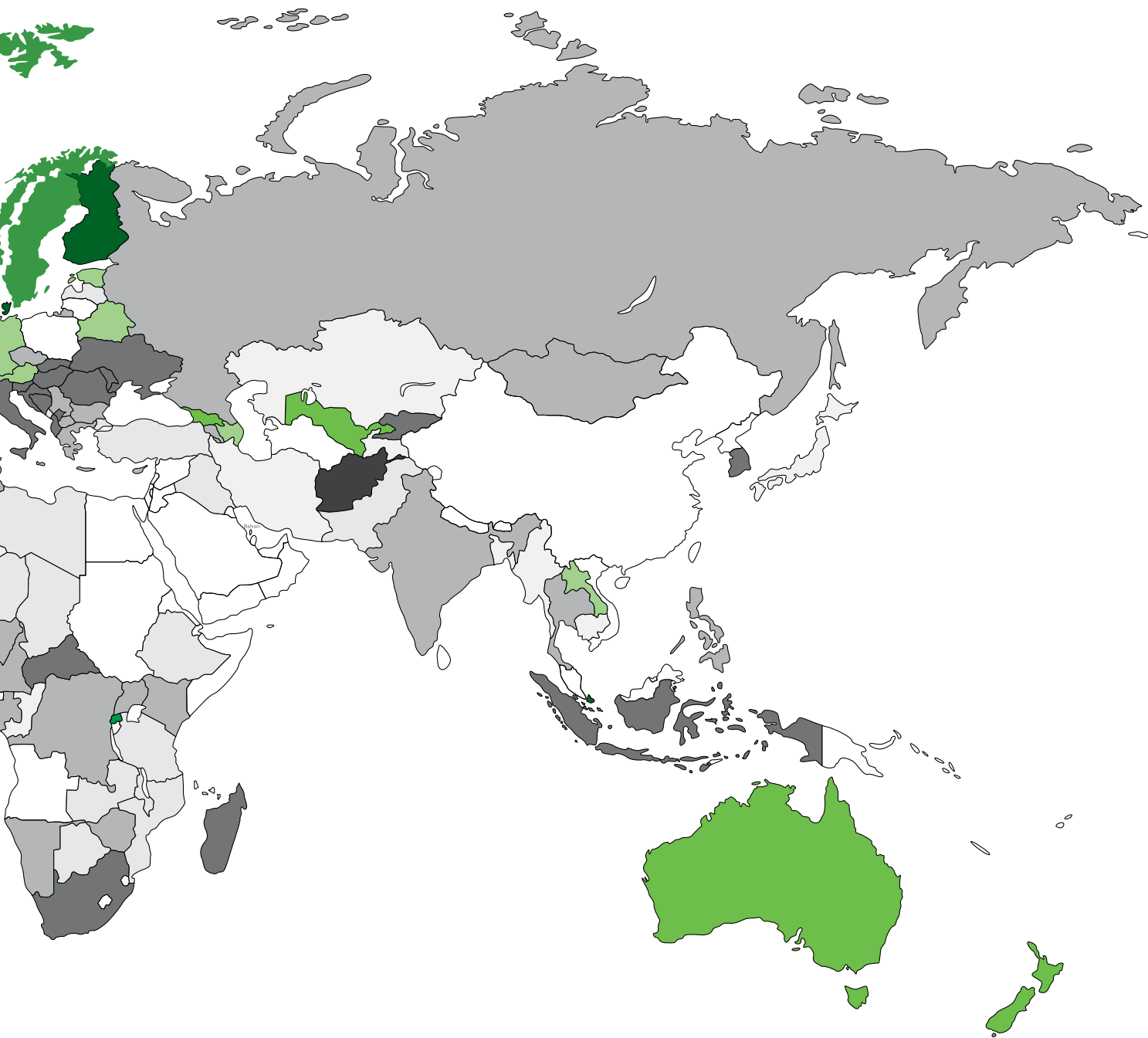
Since the late 2000s, when high-profile corruption scandals rocked several large German companies, including the multinational conglomerate Siemens and the Volkswagen subsidiary MAN, German policy-makers have increasingly targeted bribery and other forms of corporate corruption. Among the most recent reforms is a 2015 measure that dramatically expanded anti-corruption legislation, including making it a criminal offense to offer, pay or take bribes in commercial practice. ➤

Lack of focus on workplace ethics contributes to the widespread perception that businesses are corrupt.

Is corruption widespread within businesses in this country, or not?

Percentage "yes," 2017

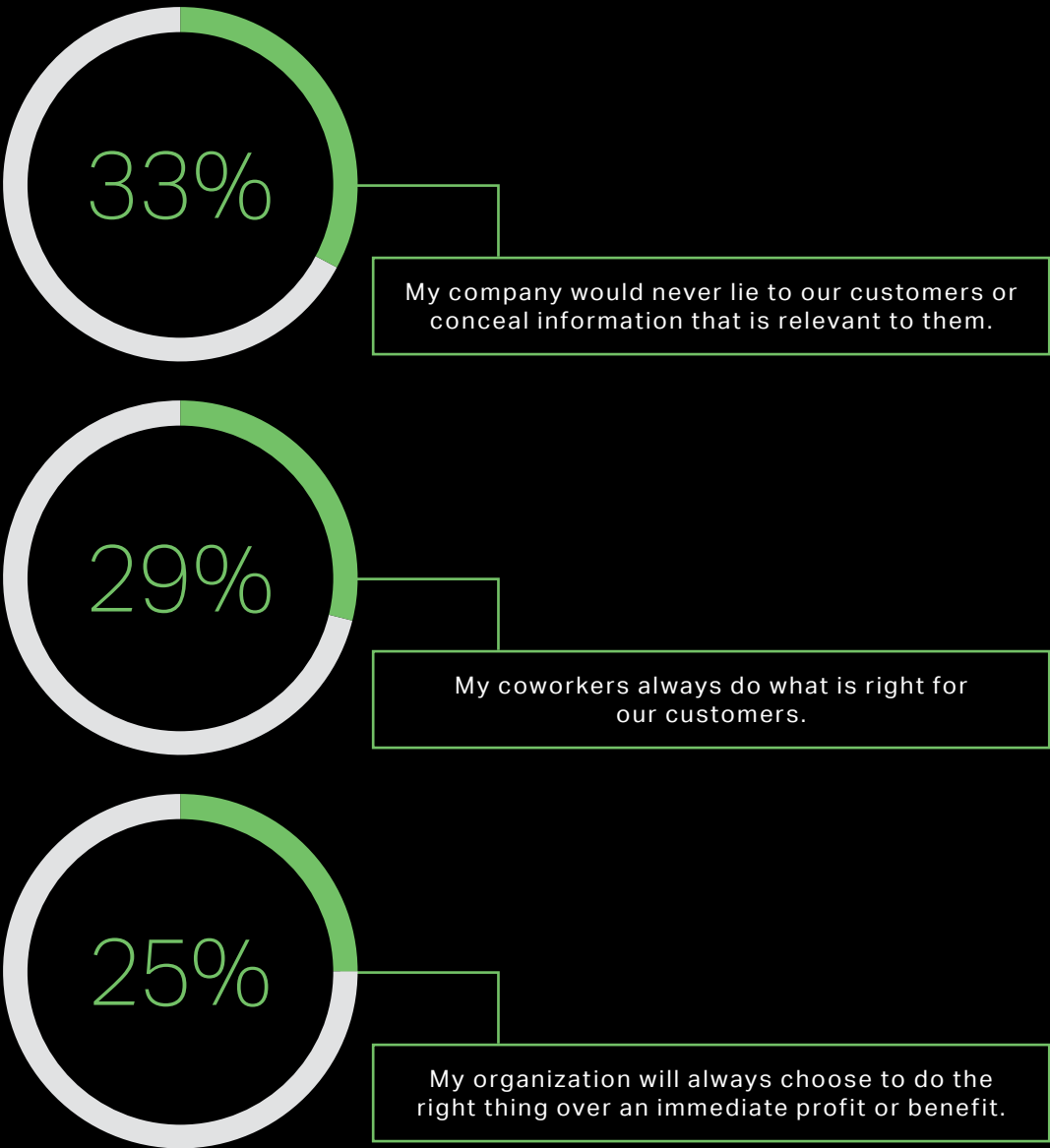




Most employees are unsure their organizations will always treat customers ethically.

In four European countries — France, Germany, Spain and the U.K. — Gallup asked employed adults how committed their employers are to doing the “right thing,” especially with regard to customers. In each case, no more than one-third agree unreservedly — i.e., by selecting “5” on a 5-point agreement scale. Most notably with regard to trust, just one-third of employees (33%) strongly agree that their company would never lie to its customers or conceal relevant information from them.

Percentage “strongly agree”



Ethical and business concerns have aligned in the global economy

In previous eras, trust was more often a product of ongoing relationships between individuals who did business together. People knew their bankers, merchants and employers personally and could assess the content of their character. These days, business transactions tend to be less personal and more far-reaching than they were even a few decades ago. Trust remains a vital form of business currency, but customers rely on different signals to convey a company's trustworthiness — including, in many cases, a wealth of information about its ethical track record and the experiences of its customers and employees.

In fact, globalization is making adherence to commonly accepted ethical standards necessary not just for building trust with employees and customers, but for full-fledged participation in the worldwide economy. Just as common technological protocols have made the rapid spread of mobile phones and internet around the world possible, common ethical standards provide a consistent set of rules that allow parties from different cultures and institutional environments to have confidence that they can do business together without being taken advantage of. The success of global “sharing economy” platforms like Uber and AirBnB has been possible, in large part, because those businesses have developed transparent rating systems that help customers feel they can trust millions of new drivers and hospitality providers.

However, trust has also become a more important consideration within organizations. Given the rapid pace of change in many industries, driven by digitization, globalization and emerging technologies such as artificial intelligence, many employees wonder if their jobs are secure and need to feel that their managers are always open and honest with them (see following article, *The New Frontier of Business Ethics*).

Perceived trustworthiness has also become an important recruiting consideration. Expectations for corporate responsibility have changed since the “greed is good” ethos of the 1980s. Employees want to know their organizations operate in a socially responsible manner. Those who believe their company will always choose to do the right thing over making an immediate profit are more likely to say they would recommend it as a place to work and that they will stay there for another three years. Gallup research has shown that millennial-age employees in particular want their careers to coincide with their personal values; they view their jobs as sources of meaning and purpose, rather than just a way to make a living. ➤

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Three essential elements of a high-trust culture

Businesses that sustain trusting relationships with employees and customers are distinguished by three central priorities, around which leaders build high-integrity organizational cultures.

1) Make strong customer value the ultimate

business goal: Organizations need an authentic, customer-centric purpose to guide their strategic focus and daily activities. Such a purpose, clearly and commonly articulated by leaders and managers, encodes ethical standards into the DNA of an organization. If a company exists to improve the life of its customers, violating their trust or harming their communities through unethical behavior becomes not just a moral issue, but a strategic concern.

As an example, in restructuring their operations after suffering massive losses in the global financial crisis, many retail banks made restoring customer relationships their paramount leadership concern, with many articulating a renewed focus on customer-centricity supported by a set of clearly stated ethical standards and responsibilities. By contrast, widespread concerns about Facebook's data-sharing policies and possible privacy violations have led to slower user and revenue growth and prompted a major ad campaign intended to regain users' trust.

2) Establish integrity as a primary organizational

value: High-trust organizations make integrity a core value that influences all HR processes, from performance incentives to hiring criteria. Buffet once said he considers integrity a more essential hiring consideration than intelligence or energy: "We look for three things when we hire people. We look for intelligence, we look for initiative or energy, and we look for integrity. And if they don't have the latter, the first two will kill you, because if you're going to get someone without integrity, you want them lazy and dumb."

However, simply hiring principled employees isn't enough, particularly in an era when ethical implications aren't always obvious or clear-cut. Recent research in organizational psychology points to "blind spots" that may lead people to behave unethically without being fully conscious of it. The concept of bounded ethicality suggests employees often fail to recognize their own moral transgressions, either because the moral dimensions of their decisions aren't salient enough or because they conflict with other personal or organizational interests. For example, in the accounting scandals of the early 2000s, major accounting firms were hired and paid by the companies they audited, motivating them to overlook inappropriate — even fraudulent — bookkeeping practices.

Employees need to see their colleagues acting under the assumption that integrity is an essential component of — rather than an obstacle to — their organization's success. Such cultural norms ensure employees never feel that their own ethical behavior leaves them at a disadvantage. Conversations about ethics and trust and the consequences of business decisions should become part of a daily routine, especially as organizations embrace experimentation and constant innovation.



3) Ensure ethical issues are a major leadership

focus: For large organizations, trust is largely a product of leadership. Business leaders help ensure employees are attuned to ethical issues by calling attention to them on a regular basis. Unfortunately, many businesses pay lip service to compliance programs without conveying to employees the organization's commitment to building and maintaining customer trust through ethical practices.

About four in 10 European employees in Gallup's recent four-country study (39%) said they had participated in compliance training in the past year. However, these employees were not significantly more likely than the others to strongly agree that their company would never lie to or conceal information from its customers (35% vs. 32%, respectively). A recent study of U.S. employees similarly suggests that participation in compliance training alone is not very impactful (see sidebar 2). ➤

A recent study of U.S. employees similarly suggests that participation in compliance training alone is not very impactful.



Many U.S. employees fail to benefit from ethical compliance programs.

Gallup's recent study of U.S. employees suggests many of those who participate in ethics compliance programs do not find them particularly motivating or relevant to their jobs. Out of more than 18,000 employees surveyed for the study, a little over half, 52%, said they had participated in an ethics training or education program sponsored by their organization. Half of those respondents said their program was web-based, while one-fourth said it was conducted in-person and the remainder received some combination of web-based and in-person training.

However, less than half of those who had participated in some form of ethics training strongly or somewhat agreed that they learned something from it that they have been able to apply in their day-to-day work (46%), while about one-fifth (21%) agreed that it has substantially improved their job performance. One-third (33%) agreed that participation in ethics training impacts the way their coworkers do their work. About one-third (34%) also said their ethics training had inspired them, suggesting a lack of effort on the part of many organizations to imbue such programs with meaning beyond legal or regulatory implications.

Most employees do not regard their organizations' ethical training programs as useful.

Please rate your level of agreement with the following items about the compliance/ethics training program you most recently participated in.

Results among U.S. employees

- Strongly agree
- Somewhat agree



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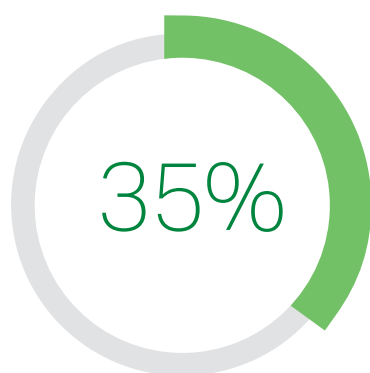
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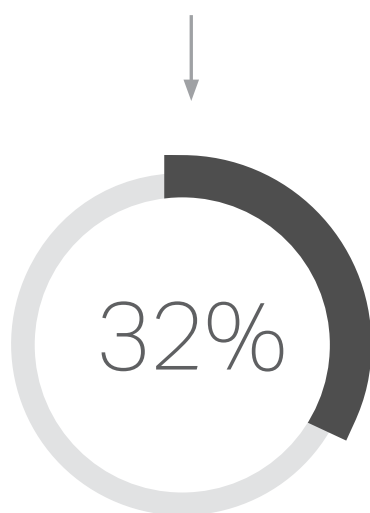
Employees who participate in ethical training are no more likely than others to feel their companies would never deceive customers.

My company would never lie to our customers or conceal information that is relevant to them.

Percentage “strongly agree”



Employees who have participated in compliance or ethics-related training in the past year



Employees who have not participated in compliance or ethics-related training in the past year

◀ Employees who have more routine opportunities to grapple with ethical concerns, however, do tend to view their employers differently.

Across the four European countries studied, 32% of employees said their teams regularly discuss ethical issues relevant to their jobs; one-fourth (26%) say their teams do not regularly discuss ethical issues. Among those employees who say their companies discuss ethical issues regularly, almost half (48%) strongly agree that their company would never deceive its customers.

Such findings point to the role of managers in maintaining a day-to-day focus on ethical vigilance. This is because managers are on the front lines ensuring that performance targets and incentive systems do not lead employees to (consciously or unconsciously) make unethical decisions, that employees are fully aware of ethical issues relevant to their work and that their team members feel free to express any ethical concerns. Overall, 39% of employees in the four European countries studied strongly agree that if they raised a concern about ethics or integrity, their employer would do what is right — but that figure rises to 61% among those who are extremely satisfied with their immediate managers.

Ultimately, strong ethical leadership is a big part of what gives employees and customers the confidence to invest in long-term relationships with organizations.

The one-fourth of employees in the four-country study who strongly agreed that their company will always do the right thing over an immediate profit are considerably

more likely than the rest to strongly agree that they are confident in its financial future — 56% vs. 32%, respectively. Most understand that their organizations' choice to make integrity a cultural imperative implies a preference for sustainable success over short-term opportunism. —



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Strong ethical leadership is a big part of what gives employees and customers the confidence to invest in long-term relationships with organizations.



The new frontier of business ethics

02

The biggest ethical challenges are those that are emerging from new technological capabilities.

Organizations need to rethink the way they approach ethics to meet the demands of new business realities. On one hand, the business case for adherence to a clear ethical code has never been stronger, thanks to globalization and the fact that the internet has given consumers unprecedented access to information that helps them gauge the trustworthiness of companies and products. These factors, plus heightened consumer concern for social responsibility, have resulted in greater attention to ethical issues among executives, investors and governments.

On the other hand, the “supply side” of ethics — i.e., organizations’ ability to avoid ethical lapses — has never been more challenging. Innovation and data-driven solutions power business success today, and these solutions often require organizations to make tough ethical judgment calls where industry best practices have yet to be established, regulators can’t provide comprehensive guidance or the cost of a single mistake can be devastating (see sidebar, Agile Organizations Need a New Approach to Ethics).

So what are the best practices at the new frontier of business ethics? Here are a few considerations for business leaders grappling with these issues:

- 1) **Ethical standards need to be at the core of an organization’s purpose, brand and culture.** They should be part of every employee’s concept of “what our company stands for.” The notion that transgressions can be glossed over by a crisis communications agency in a bad publicity moment is outdated and dangerous. Only by aligning their purpose, brand and culture around ethics can organizations ensure their actions and communications are consistent and reliable across all channels, geographies and stakeholder groups.

2) **In an era of data- and innovation-powered business growth, the idea that “everyone is in sales” should be complemented by the notion that “everyone is in ethics.”** The biggest ethics and compliance risks are no longer coming from a small group of employees with access to cash or trade floor decisions. Today, the ethical track record of many organizations is in the hands of data scientists, engineers and programmers, as well as all frontline employees who have access to customer data.

Many of the ethical decisions these employees face in their day-to-day jobs require more than simple adherence to a corporate code of conduct. They need to be enabled and incentivized to apply their own moral compass at work, to guide the business through ethical gray areas by doing what they know is right for customers. Cultivating a “culture of ethics” is therefore increasingly linked to workplace characteristics like employee empowerment, trusting relationships between employees and managers and a non-hierarchical mindset. Employees need to feel they can freely and safely raise ethical concerns, and that their own efforts to do the right thing will be supported.

3) **The biggest ethical challenges are those that are emerging from new technological capabilities.** The fact that there is no precedent for dealing with these issues doesn’t make them any less impactful. For example, while organizations should embrace the risk-management capabilities offered by big data and people analytics (such as early warning systems for high-risk areas and decisions), they need to be careful not to slide into Big Brother-like surveillance systems that violate the trust of their employees or customers.

That’s why leaders must nurture the conditions for ethical decision-making throughout their organizations, so employees have a robust framework for navigating the challenges associated with every new innovation. Businesses that proactively place a premium on asking challenging questions and behaving ethically are most likely to prove themselves trustworthy amid coming technological revolutions, such as the one being driven by advances in artificial intelligence (AI). They are the organizations that will not only survive constant change, but will take competitive advantage of it.

Innovation and data-driven solutions power business success today, and these solutions often require organizations to make tough ethical judgment calls where industry best practices have yet to be established.

Agile organizations need a new approach to ethics.

Many organizations are currently rethinking their structures and mindsets to become more agile amid rapid technological and commercial changes, increasing authority for local decision-makers, encouraging trial-and-error in product development and accelerating speed to market. With these new strategies, a fresh approach to managing ethics and compliance is required as well. Reconciling the need to experiment, take risks and make mistakes with zero tolerance for ethics transgressions is not a trivial task. Failing to take that task seriously, however, can result in disaster.

Organizations embracing an agile transformation need to ensure their leaders are equipped to manage ethics and compliance risks in the new, faster-paced and more fluid environments. Gallup's research indicates that about 70% of variation in employee engagement comes down to local team factors, as opposed to company-wide conditions. When teams are formed rapidly, as they often are using agile processes, team leads simply have less time to ensure they are fostering an open and inclusive trust-based environment. They require skills and tools that help ensure all team members feel they can freely speak up and ask challenging questions.

Building this leadership capability often requires changes to the way employees are selected, developed and incentivized, and should be part of the organization's overall people strategy, rather than relegated to its compliance department. This may require a high degree of effort, but the stakes involved are at least as high, especially when it comes to digital business models. Empowering local teams to be guardians of ethical compliance is a prerequisite for the "ethical-by-design" solutions that must be incorporated into commercial applications of AI and other new technologies.

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Organizations embracing an agile transformation need to ensure their leaders are equipped to manage ethics and compliance risks in the new, faster-paced and more fluid environments.



Issue Contributors



**JEREMIE
BRECHEISEN**

Partner

Jeremie Brecheisen disrupts large organizations to improve the practice of management.



**GHASSAN
KHOURY**

*Managing Partner -
Europe, Middle East
and Africa*

Ghassan Khoury advises organizations how to address complex issues that are rising due to global disruptive forces.



MARCO NINK

*Regional Lead,
Research and Analytics
- Europe, Middle East
and Africa*

Marco Nink advises organizations how to improve their business performance with a focus on employee, customer and supplier analytics.



**MARIA
SEMYKOZ**

*Workplace Analytics
Architect*

Maria Semykoz advises organizations how to harness the power of data-driven decision making to create workplace cultures that generate innovation, digital transformations, customer centricity and ethical business conduct.

STEVE CRABTREE

Senior Consultant

Steve Crabtree is lead editor for Gallup's Real Future of Work initiative. Crabtree is a senior editor and research analyst.

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GALLUP®

World Headquarters

The Gallup Building
901 F Street, NW
Washington, D.C. 20004

t +1.877.242.5587

f +1.202.715.3045

www.gallup.com