

Saving the company comes at a cost, ethics center reports

Economic downturns, like the most recent one dubbed the Great Recession, force businesses to engage in a variety of survival tactics. These include adjusted work schedules, layoffs, compensation and benefits reductions, hiring freezes, early buyouts, production slowdowns and plant closures.

Recently the Ethics Resource Center issued a brief to provide further analysis of the 2009 National Business Ethics Survey data, exploring the relationship between such belt-tightening tactics and an increase in the number of employees reporting that they observed misconduct in the workplace during the past 12 months—something the center calls the “observed misconduct rate.” The findings provide important insights that business leaders should consider before, during and after using such tactics.

In its research brief, the center explains that it did further analysis of the 2009 NBES data to answer these questions: Which tactics are linked to the most dramatic rises in observed misconduct? What seems to drive the increase, and how do the tactics affect different groups of employees?

The center made five key findings:

■ The most dramatic increases in observed misconduct rates are associated with reductions in compensation and benefits and adjusted work schedules, which have a more direct impact on an employee’s personal finances, life and livelihood.

Specifically, the brief reports a 43 percent increase in the percentage of employees observing misconduct in companies that reduce compensation or benefits and a 38 percent increase in companies that implemented adjusted work schedules. These increases were nearly double those associated with employees who survived plant closures.

In light of this finding, the ERC advises corporate executives who take these ac-



BUSINESS ETHICS

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tions to “be on the lookout for hidden resentment and attempts to unscrupulously ‘take back’ what employees feel they deserve.”

■ Small organizations that implement cost-saving measures have more dramatic increases in observed misconduct rates than large organizations. The data showed that small companies that implemented layoffs had a 62 percent observed misconduct rate, as contrasted with a 59 percent rate at large companies after layoffs.

One reason for this, the center surmises, is less distance between management’s decisions and employees in smaller companies. Regardless of the reasons, the ERC suggests that leaders in small companies be especially attuned to how belt-tightening tactics are received.

■ First-line supervisors observe misconduct at a significantly higher rate than at any other employee level. As a consequence, it is important that first-line supervisors receive the resources, support and training they need to respond to more frequent misconduct and to manage the stress created by it.

■ In normal times, privately held companies have a lower rate of observed misconduct (49 percent) than publicly traded companies (58 percent). But once a company begins taking cost-cutting actions, there is virtually no difference between public and private companies.

The upshot of this finding is that leaders

of privately held firms must address the significant increases in observed misconduct that are likely to follow the implementation of such tactics.

■ The rise in observed misconduct is steepest among younger employees, those 18 to 29 years old. Not surprisingly, cost-cutting tactics also are associated with much lower employee commitment, which affects performance and engagement.

This means that when they prepare for cost-cutting initiatives, leaders should consider steps they might take to help younger workers stay engaged and cope better with the frustrations and challenges they are likely to face.

It’s not particularly surprising that observed misconduct rates increase when companies engage in cost-cutting measures that affect employees’ lives. Such measures may be essential for the survival of the business, but they place additional stresses on employees. They also may be interpreted by surviving employees, who are asked to do more with less, as a breach of an implicit contract between them and their employer. Employers who are sensitive to this and plan accordingly may put themselves in the best position to survive an economic downturn and be poised for success when good times return.

You can download a free copy of the Ethics Resource Center’s 2009 National Business Ethics Survey and the supplemental brief at ethics.org.

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