



Ethical Concerns and Lapses 2016

This annual briefing provides an overview of major ethical concerns and lapses recorded in the IBE’s weekly media monitoring throughout 2016.¹ This analysis considers both lapses by sector and the type of ethical issues observed.

In 2016, the IBE has captured 604 different news stories concerning UK companies and multinationals with a UK presence. In 2015, the IBE recorded 376 stories. Although far more stories were collected in 2016, the volume of stories provides no indication of the severity of ethical lapses in any year.

The majority of news stories reporting on alleged misconduct involved big corporations. 18 of the 20 most frequently mentioned companies are publicly listed, 9 of which are listed on the FTSE 100. According to their company websites, 95% of these companies have a defined set of company values and 85% have a publicly available code of ethics (or similar document). Last year,

only 80% of the 20 most frequently mentioned companies had an explicit set of values and around three-quarters had a code of ethics (or similar document).

10% of the headlines captured were ethical concerns and observations that affected the business community as a whole. Concerns about diversity and discrimination, mistreatment of employees and executive remuneration were most often cited.

Lapses by Sector

For the third consecutive year, reports of alleged unethical behaviour were most frequently recorded from the finance, retail and technology sectors.

Graph 1 Most reported ethical lapses in 2016 by sector



¹ The IBE monitors the daily news for stories of a business ethics nature relevant to the UK. Stories which are captured are posted on the IBE website, see [‘Business Ethics News’](#)

As in previous years, the finance sector has attracted the most media scrutiny, accounting for one in four headlines (26%). Retail continues to rank second, although this year representing only 12% of news items collated, compared to 16% in 2015.

Finance

The financial sector has been plagued by a number of controversies over the last decade and the media continued to report unethical behaviour in 2016.

The most frequently recorded were lapses that fall under the umbrella of financial crime, including fraud, insider trading, money laundering and price fixing. Allegations vary between actions of rogue individuals and crimes committed by organisations, which has led some to suggest a pervasive unethical culture is sustaining this behaviour. Allegations of bribery and corruption and mistreatment of customers were also prevalent.

Reporting on executive remuneration, where packages are considered to be excessive compared to company performance, continued to attract media attention in 2016 in the financial sector.

Promoting an ethical corporate culture in the financial sector and the subject of corporate governance were high on the Government's and the financial regulator's agenda throughout 2016 and the news stories reflect this. The matter of appropriate incentive structures within the financial sector were arguably behind a number of the reported ethical lapses, contributing to the volume of news stories that reported on the mistreatment of banking customers.

Retail

Since 2010, retail has been the second most mentioned sector in terms of alleged ethical lapses and concerns. In 2016, the IBE captured 75 different news stories.

The mistreatment of its stakeholders was most frequently reported, namely employees and suppliers, making up a third of the recorded headlines. Substantial attention was paid to the remuneration packages of employees. The subject of pay, pensions and the use of zero-hours contracts continued to feature heavily. A number of high-profile examples repeatedly featured. A number of companies were scrutinised for their use of 'self-employment' contracts that leave workers unentitled to sick and holiday pay.

In line with 2015, suppliers were again kept waiting, as leading retailers delayed their payments for their own benefit.

A number of leading retailers continued to be caught out by allegations of unfair pay and the use of child labour in their overseas factories, despite the introduction of modern slavery reporting in 2016.

Technology

There were 52 reported ethical lapses in the technology sector, accounting for 9% of the total media stories recorded in 2016.

23% of reported lapses in this sector concerned data privacy and featured most prominently this year. Technology companies providing a consumer service, such as social media companies or those hosting email facilities, dominated these headlines.

Reports on diversity and discrimination made up 13% of reported lapses. Of those stories, the majority drew attention to the slow progress made on gender diversity within specific technology companies.

A further 13% of headlines centred on the fairness of tax planning in this sector. Of the 32 different news stories collected about tax in 2016, companies in the technology sector featured the most.

Other Sectors

Professional service firms, particularly audit and consultancy firms, were most mentioned in connection with aggressive tax planning services and incidents of fraud, either through colluding with their clients or due to inadequate detection procedures. 50% of reported lapses in the automobile sector this year were also due to allegations of fraud.

Companies operating in the food and drink sector suffered a number of allegations in respect to labour exploitation. In their UK operations, companies were scrutinised on their use of zero-hours contracts and other matters around remuneration. There were a number of UK companies implicated in reports of child exploitation overseas.

37% of news stories concerning the pharmaceutical sector were reporting on the alleged use of unfair pricing structures of certain drugs.

Issues of Concern

In 2016, 10% of recorded news stories were related to bribery and corruption. 14 different news stories on this topic were recorded from the banking and finance sector, a further 13 were recorded from the mining and extractive sector. This corresponds to the findings of the IBE’s latest survey, where 50% of companies surveyed said bribery and corruption was a top issue of concern.²

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 corrupt money infiltrating the legitimate financial system and corruption in public procurement. Both these correspond with the subjects of the lapses recorded.

Mistreatment of stakeholders (including employees, customers and suppliers) made up 19% of recorded news stories. Unfair treatment of employees was the

second most common issue covered by the media, with 51 reported lapses. The media mainly drew attention to concerns around the minimum wage, the living wage, zero-hours contracts and the abuse of self-employment contracts and its resultant impact on employment rights such as holiday pay.³ A further 46 stories were recorded noting the mistreatment of customers. 41% of these allegations were in the banking and finance sector. However, rather than reporting misconduct from a specific organisation the majority of stories tended to critique the industry as a whole.

Reports of fraud ranked third. Allegations of fraud continued to be most prevalent in the Banking and Financial sector, with 18 reported lapses. In 2016, a number of different car manufacturers around the world faced probes into their activity around emissions testing; investigations are ongoing.

Graph 2 Most reported ethical lapses in 2016 by issue



² IBE Survey (2017) *Corporate Ethics Policies and Programmes: 2016 UK and Continental Europe Survey*

³ The IBE has addressed some of the issues relating to the fair treatment of employees in two Business Ethics Briefings: IBE Briefing (2014) *Fairness in the Workplace: pay* and IBE Briefing (2015) *Fairness in the Workplace: staffing and contracts*

Conclusions

As in 2015, the majority of news stories the IBE collected in 2016 implicated big corporations. Many of these companies have an explicit set of values and a publicly available code of ethics. Whilst these are important components, this suggests that further steps need to be taken to effectively embed an ethical culture throughout their organisation.⁴

For the last 13 years the IBE has asked the British public about its view on how ethical British business is, specifically asking what concerns them most about company behaviour.⁵ Although allegations of bribery and corruption were most frequently recorded, only 11% of respondents viewed this as a top issue of concern in 2016. In contrast, the 2017 Edelman Trust Barometer revealed that globally, corruption is a top issue of concern for the public. Whilst UK companies are implicated in corruption scandals, their transnational nature potentially explains why this is less of a direct concern for the British public compared to elsewhere.⁶

Corporate tax avoidance and executive remuneration were the top ethical issues of concern for the British public. Further, the 2017 Edelman Trust Barometer indicated that shifting profits to avoid taxes and paying executives hundreds of times more than their workers were among the top 3 most damaging actions a business

can take to undermine trust. However, tax and executive remuneration only made up 5% and 6% of news stories captured respectively.

Both exploitative labour and the work-home balance of employees were the top 5 issues of concern for the British public, which correlates with the prevalence of stories captured about the treatment of employees. The 2017 Edelman Trust Barometer revealed that the global public considered the treatment of employees as the most important attribute for building trust within a company.

The political events in 2016 have raised concerns around the public's trust in government and business, and aspirations for a more inclusive society. In light of this, in one of her first major speeches, Prime Minister Theresa May drew attention to the subject of corporate governance. Corporate governance has also been on the financial regulator's agenda; in 2015 the FCA clarified rules around personal accountability for lapses in ethical behaviour in banking and finance.⁷ In 2016, the FRC published its report on corporate culture, finding that a healthy corporate culture is key to sustainable growth, supporting the rhetoric around companies needing to earn their licence to operate in society.⁸

⁴ See the *IBE Business Ethics Framework* on embedding an ethical culture

⁵ IBE (2016) [Attitudes of the British Public to Business Ethics 2016](#)

⁶ [2017 Edelman Trust Barometer](#)

⁷ FCA (2015) [Financial Conduct Authority confirms approach to improving responsibility and accountability in the banking sector](#)

⁸ FRC (2016) [Corporate Culture and the Role of Boards – Report of Observations](#)



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