

Business Ethics Briefing

Issue 24, March 2012

Concerns & Ethical Lapses, 2010 & 2011

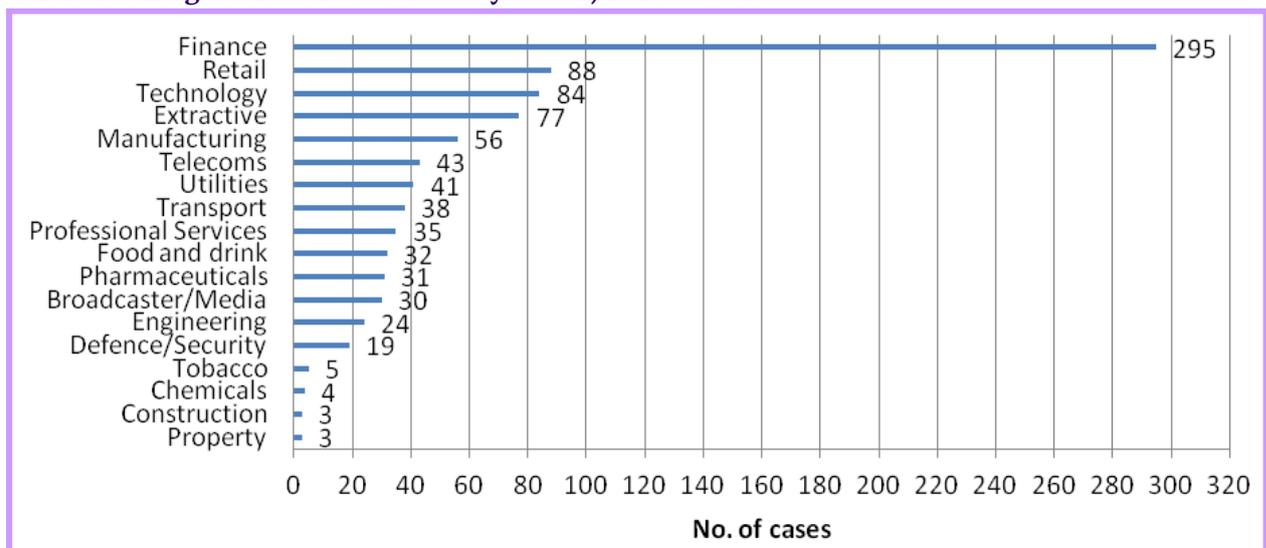
This Briefing provides an overview of major ethical concerns and lapses, as recorded in the IBE's weekly media monitoring in 2010 and 2011.¹ The news stories involve UK companies or multinationals with a UK presence. The analysis focuses on allegations and trends within sectors and then by ethical issue.

The IBE media monitoring reported 928 cases of ethical lapses in 2010 and 2011. A small proportion of news stories (14%) did not identify individual companies but applied to whole sectors. Just under a third involved FTSE 100 companies and all but one of these listed companies have a code of ethics (or equivalent document).

Lapses by Sector

As Chart 1 shows, of the 18 sectors that were included in the business ethics lapses recorded by the IBE during 2010 and 2011, finance (includes insurance companies) received by far the most news coverage (295 news stories). This is consistent with previous years. Retail was the next most reported on sector in the media, closely followed by the technology (includes IT companies) and extractive (oil, gas, metal and mining) sectors. The tobacco, chemicals, construction and property sectors were least mentioned in the news.

Chart 1: Allegations of misconduct by sector, 2010 & 2011



¹ The media monitoring is available to view on the IBE's website at: <http://ibe.org.uk/businessethicnews.asp>

This and other Business Ethics Briefings are available to download free of charge from the IBE website:
<http://www.ibe.org.uk/index.asp?upid=51&msid=8>

Finance

Reporting on the finance sector made up almost a third of all news items. The most commonly reported on issue for the finance sector was **executive remuneration**, which made up nearly a quarter of all news stories. In many cases there was outrage by the public and evidence of shareholder revolt against bonus payments for senior executives.

Ethical lapses in **bribery, corruption and fraud** were also predominant in news stories on the finance sector. Other issues of concern were **fair pricing** (mostly in regards to the mis-selling of Payment Protection Insurance) and **corporate governance**, in particular board diversity and the role of women on boards.

Retail

88 cases recorded in the IBE's media monitoring involved the retail sector. Most of these (24%) involved **ethical failings in the supply chain**, largely in the form of sweatshop labour and poor working conditions.

Executive remuneration and **marketing/advertising** were also frequently reported on in the retail sector. Deceptive marketing/advertising incidences involved excessively airbrushed models, and one company was criticised for using models with computer-generated 'virtual' bodies. Supermarket retailers were under media scrutiny for misleading pricing promotions with each retailer claiming that they offered the *lowest* prices and 'offers' which actually increased prices.

Technology

Almost a third of the 84 news reports on the technology sector involved **data protection** and **privacy issues**. In some cases this resulted in investigations and/or fines. News stories involving **fair competition** and **bribery, corruption and fraud** were the next most common for this sector.

Extractive

77 of the media monitoring cases involved extractive companies, making it the fourth most reported on sector (it was second in 2009). This decline may be attributed to the fact that news items on environmental responsibility issues have been excluded from the analysis for the 2010 and 2011 media monitoring but were included in 2009.

The most widely reported on issue for this sector was **corporate governance**, comprising over a third of all news stories. Extractive (particularly oil and mining) companies were accused of failing to have adequate mechanisms in place to respond effectively in a crisis, and of failing to manage conflicts of interest between controlling shareholders on the Board and outside shareholders.

Incidences of **bribery, corruption and fraud**, and allegations of **human rights abuses** in emerging markets were also commonly reported on in the extractive sector.

Other Sectors

Fair competition issues, largely industry collusion and price fixing, were the most commonly reported on ethical lapses amongst **manufacturing** companies. This was closely followed by reported cases of **product safety** issues and **bribery, corruption and fraud**, largely involving car manufacturers.

Almost a quarter of news stories on the **telecoms** sector involved the **treatment of customers**.

Fair pricing issues were of greatest concern to the **utilities** sector in 2010 and 2011, with over half of cases reporting ethical lapses in this area. This was largely related to news items reporting unfair or deceptive pricing packages for customers by large energy companies. **Treatment of customers** also made up a large proportion of ethical lapses cases in the utilities sector, followed by **fair competition** issues.

The majority of cases (60%) reporting on **professional services** companies involved **corporate governance** issues. These often related to 'near misses' or 'oversights' by firms in their work as a result of poor governance mechanisms. **Fair competition** was also a major issue for this sector.

Pharmaceutical companies were most often reported as having lapses in **bribery, corruption and fraud**, with over a quarter of stories relating to this. **Product safety** and **marketing/advertising** were also issues of concern, with a number of large pharmaceutical companies alleged to have sold or marketed products that had not met regulatory standards.

In the **defence & security** sector **bribery, corruption and fraud** were a key concern, with half of news stories referring to this. A number of these news items referenced a case involving a company's misconduct from as far back as 2000 – demonstrating the lasting reputational damage of unethical behaviour. Another area of concern for this

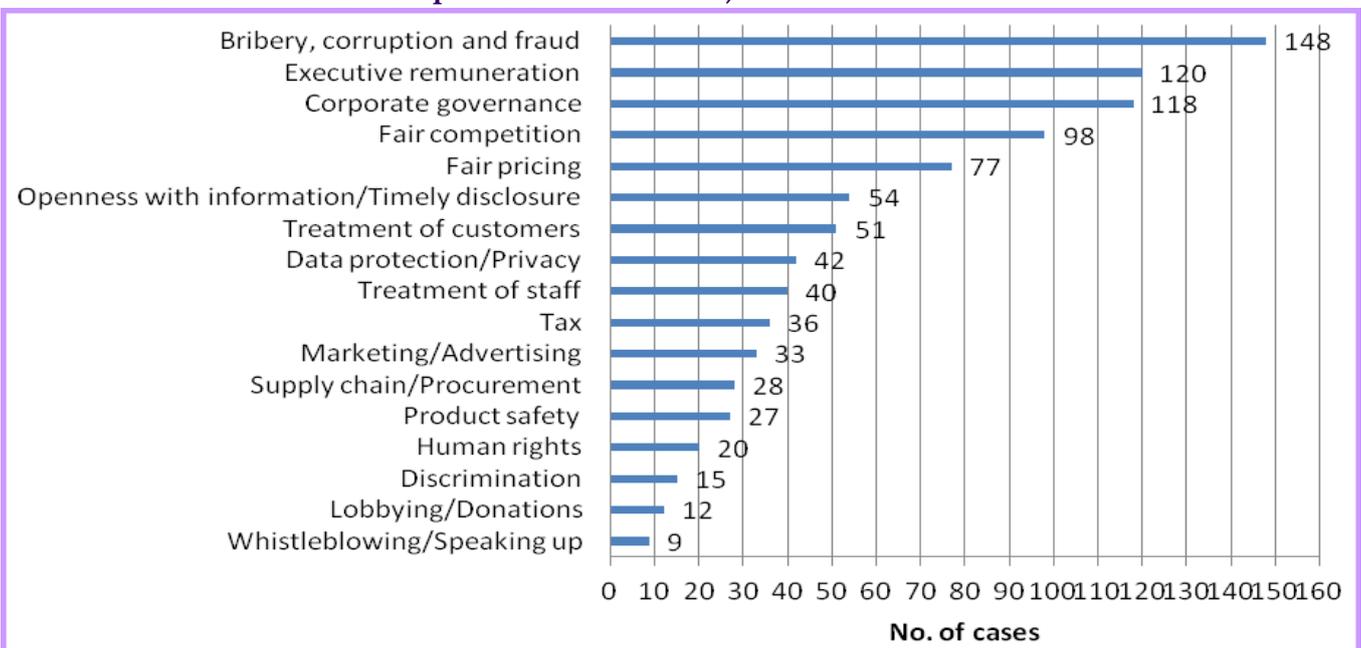
sector was **human rights** issues.

For the remaining sectors, the main ethical issues were **treatment of staff** in the **food and drink** sector; **bribery, corruption and fraud** which made up almost two thirds of cases in the **engineering** and all cases on the **chemicals** sector; and **corporate governance** issues in the **broadcaster/media** sector. In the latter sector many of the news stories in 2011 related to the phone hacking scandal involving a number of UK newspapers.

Business Ethics Issues

Analysis of the IBE's media monitoring found that 17 different business ethics issues were reported on by the UK media from 2010 to 2011. As Chart 2 shows, the most commonly reported on issue was **bribery, corruption and fraud**, followed by **executive remuneration**, **corporate governance** and **fair competition**. News items reporting on **whistleblowing/speaking up**, **lobbying/donations**, **discrimination**, and **human rights** were less common.

Chart 2: Business ethics issues reported on in the media, 2010 & 2011



In some cases, a large proportion of the news stories on a specific business ethics issue involved a particular sector, although the issue may have represented only a small proportion of total news items for that sector.

For example, more than half of all news stories on the issue of **tax** involved the **finance** sector. Yet **tax** issues were not commonly reported on as an ethical concern for **finance** companies.

Looking at which sectors were most involved in lapses:

- Over half of all news stories on **executive remuneration** and **openness with information/timely disclosure**, involved the **finance** sector.
- Just under half of cases reporting on the issues **fair competition** and **treatment of customers** also involved the **finance** sector.
- The **retail** sector accounted for three quarters of all news items on **supply chain/procurement** issues, and for almost a third of news stories on **marketing/advertising** issues.
- Nearly a third of news reporting on **human rights** issues involved **extractive** companies.
- More than half of the media coverage on **data protection/privacy** issues involved **technology** companies.
- Just under half of the news stories on lapses in **product safety** occurred in the **manufacturing** sector, and a quarter in the **pharmaceutical** sector.

Recent Trends

There were some notable differences in reporting on concerns and ethical lapses in 2011 compared with 2010. The number of news stories involving the **extractive** sector almost doubled. Conversely coverage on **utilities** companies decreased by two thirds, and in the **food and drink** sector, by more than half.

In terms of ethical issues, the number of cases involving **corporate governance** issues more than trebled from 2010 to 2011. Similarly, reporting on incidents of **bribery, corruption and fraud** almost doubled over this period. It is worth noting that in 2010 there were 87 cases relating to **executive remuneration** but this dropped to 33 in 2011. Only 3 of the 27 new stories on lapses in **product safety** and only 1 of 12 reports on **lobbying/donations** occurred in 2011. The number of news stories on **marketing/advertising** and on **supply chain/procurement** issues fell by more than half from 2010 to 2011.

"The trends highlighted in this Briefing suggest that business in the UK is continuing to grapple with a number of ethical issues. Yet it is encouraging to note the decline from 2010 to 2011 in the number of news stories reporting on issues such as product safety, marketing/advertising and procurement.

However, in light of the 2010 UK Bribery Act, it is of some concern that reports of corporate lapses concerning bribery, corruption and fraud almost doubled between 2010 and 2011. This suggests that business has some way still to go in effectively embedding anti-bribery and corruption mechanisms into their culture; or it may be that being under the spotlight has meant more cases of bribery are being reported on.

The disproportionate number of cases relating to the finance sector is also of concern, though perhaps unsurprising considering the economic downturn."

Philippa Foster Back, Director, IBE

A note on methodology:

The IBE's weekly media monitoring provides a synopsis of business ethics related stories featured in the UK and international quality news media.

The information in this Briefing is indicative of trends in ethical lapses in business behaviour, and is not intended as a comprehensive account of media reports.

The media monitoring for 2010 and 2011 generally did not include news items covering 'health and safety' and 'environmental responsibility' issues.