

Business Ethics Briefing

CONCERNS & ETHICAL LAPSES IN 2007

This briefing provides an analysis of moral concerns and allegations of malpractice involving UK corporations covered in the broadsheet media in 2007.

“Consumers 'tricked' into buying protection insurance”

“Record fine for TV phone-in company”

“Mobile phone firms plan to find out what you’re talking about . . . and tell advertisers”

“The sweatshop high street - more brands under fire”

“Unions urge scrutiny of private equity tax breaks”

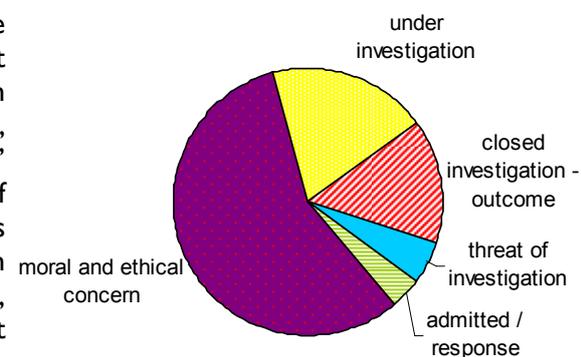
These are just a few headlines of news stories reporting alleged and actual malpractice within or by companies headquartered or operating in the UK.

In 2007, IBE’s weekly Media Monitoring (available on our website) picked up over 300 such incidents in the headlines. This briefing presents an analysis of these news stories. It looks at the different types of allegations made about business, the issues that were of most concern, the sectors that were most frequently mentioned, as well as the individual organisations mentioned. This is not intended as a scientifically rigorous analysis. As an overview, it provides some interesting insights into the issues that are currently challenging UK businesses and that the media are interested in.

Nature of the allegations

Allegations covered in the media fall into five groups (see Chart 1). Most frequently mentioned were **moral and ethical concerns**. These were voiced by a range of societal and stakeholder groups (57%) and, not surprisingly, most allegations were from NGOs. For example, campaign groups raised the issue of sweatshop labour and human rights violations, and environmental groups accused companies of their poor ‘green’ performance. News stories on moral concerns were also the result of investigations carried out by the media, such as undercover investigations into the practices of banks and supermarkets. Other reports concern allegations voiced by politicians, professional / trade bodies and experts, as well as trade unions on, among other things, tax avoidance, product safety and quality and labour standards in the UK and abroad.

Chart 1 Nature of the allegations



Shareholders are also increasingly active in this area by calling to account the companies in which they invest over issues such as executive remuneration and wider corporate responsibility.

19% of the reported allegations involved organisations **under investigation** by criminal courts, regulators, parliament etc. Concerns voiced previously by civil society groups seem to be taken increasingly seriously at the political and judicial level. For example, the concerns around supermarkets’ abuse of their market power became in 2007 the focus of an Office for Fair Trading investigation. Other high-profile investigations addressed the unfair treatment of customers in the financial services industry, price fixing in the aviation sector, bribery and corruption in the defence industry, and the practices of phone-in competition companies.

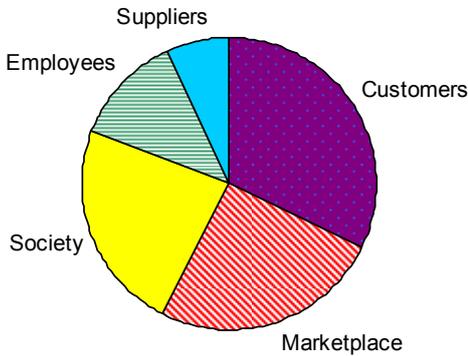
A further 15% of the new stories reported on the **outcome of such investigations**, which often meant fining or censoring companies. 5% of the stories mentioned that companies were under **threat of investigation**.

Finally, a small percentage (4%) of news stories were about companies **admitting**, or taking action in **response** to, allegations and concerns. This included supermarkets withdrawing products that might damage the health of customers, retailers ceasing to source from a country known for human rights violations, and companies changing their executive remuneration and other governance practices.

... Doing business ethically

... makes for better business

Chart 2 The subject of the news stories on misconduct

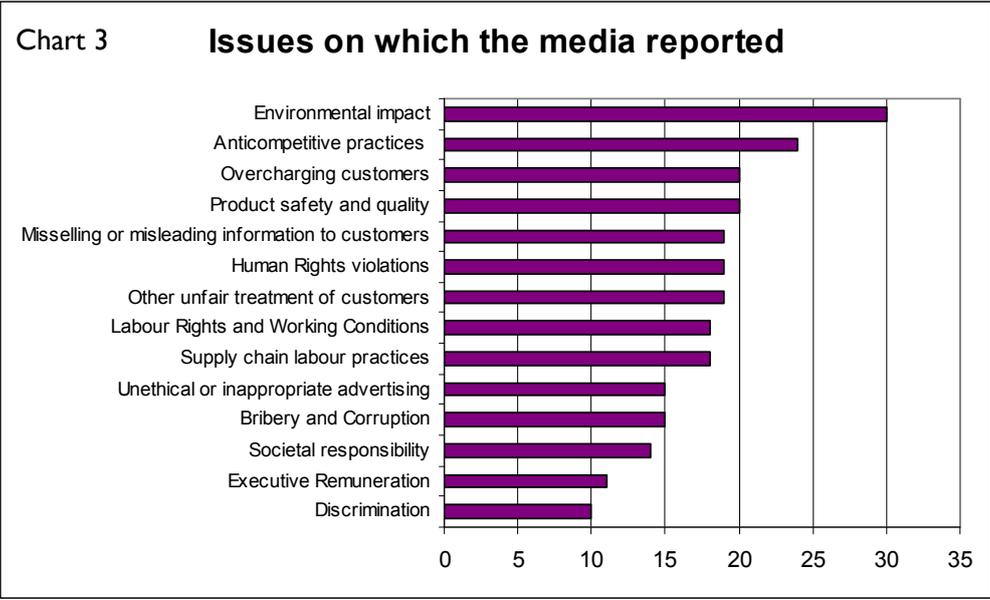


Who is affected? (Chart 2)

- Malpractice concerning customers was the subject of about a third of the news stories. They addressed, among other things, concerns around product safety, the provision of misleading information and overcharging.
- About a quarter of the stories focused on malpractice in the marketplace, which include allegations of anti-competitive practices and of bribery and corruption.
- Stories about practices affecting wider society ranked third. In this regard, environmental impact of corporate operations and violation of human rights were of particular concern.

What are issues of concern?

Chart 3 lists the most frequently mentioned issues covered in the news stories. Concerns about environmental impact are high on the media’s agenda, followed by reports about alleged and actual anti-competitive behaviour and the overcharging of customers.

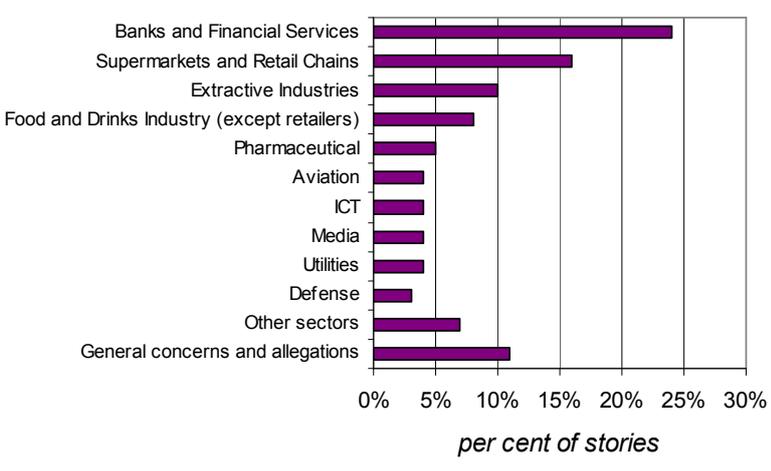


Allegations by sector

The three sectors that received most attention by the news media were banks and financial services (24%), supermarkets and retail chains (16%) and the extractive industries (10%).

The **financial services sector** was particularly criticised for its treatment of customers; excessive fees charged by banks for the provision of services, the mis-selling or misleading advertising of financial products, and the closing of bank accounts of those customers who had complained about excessive overdraft fees. Another area of concern was the indirect involvement of banks in human rights abuses. For example, when they chose to fund a regime or company operating in a country that actively violates human rights.

Chart 4 Allegations by sector



Concerns about the **private equity sector** were also frequently voiced – particularly as the industry became subject of a parliamentary investigation. Investors were accused of enjoying unjustifiably high tax breaks, of having a negative impact on employee rights and working conditions, and, more generally, of pursuing short-term strategies, which could destroy economic value in the long run. These accusations may have been fuelled by the industry’s lack of transparency.

It is unsurprising that most concerns relating to the **extractive industries** were about their not addressing environmental impact. Specific issues were refusal to invest in cleaning-up procedures and insufficient investment in renewable energy. These went hand in hand with allegations that some oil and gas companies portray themselves as ‘greener’ than they really are. Other concerns include lack of robust health and safety systems and the violation of human rights. The latter was particularly raised in relation to mining companies and their operations in countries with oppressive regimes.

Supermarkets and retail chains were mainly criticised for their practices in their supply chain. There were concerns over sweatshops and child labour and the failure to pay the minimum wage in certain developing countries. Allegations also focused on illegal practices in UK supermarket packing plants and the exploitation of immigrant labour by gangmasters. Another area of concern was a number of anticompetitive practices among supermarkets, including allegations of price-fixing. An issue that received specific attention was the treatment of suppliers themselves. Particularly smaller supplier companies were reported to feel ‘squeezed’ by supermarkets and retailers, making it nearly impossible for them to run profitable businesses.

Which companies?

Not surprisingly, companies operating in these three sectors are among the ten companies most frequently accused by the media of malpractice. Other companies in the ‘top ten’ were from the pharmaceutical, media and defence sectors.

80% of these companies are in the FTSE 100. The media may be prone to singling out the big players in order to point out ethical failures common to the whole of their respective industries. On the other hand, because of the power that comes with high market capitalisation they are often expected to have higher standards of business conduct. Any irresponsible behaviour on their part may be met with particularly fierce criticism.

It is of concern that all of the ‘top ten’ companies have a code of ethics, and yet they are accused of behaving in a way that does not only contradict a certain set of societal values but also sometimes their own standards and stated values. It shows that companies have still a long way to go to truly live up to their stated values and principles.

Comment

Media reports on corporate malpractice make for good headlines. They will affect public opinion and thus can cause a reputation problem for companies. Companies’ ‘licence to operate’ depends on the trust that the general public place in them. Recent figures collected by Ipsos-MORI indicate that trust in business people remains very low at 26% (www.ipsos-mori.com).

Because of this, addressing and responding to ethical concerns and allegations of misbehaviour is in their own interest as well as being the right thing to do.

For guidance on how to embed ethical values see:

Webley, S. ‘Making Business Ethics Work’ (IBE, London) (<http://www.ibe.org.uk/publications/listofpublications.htm>)