

Ethical Concerns and Lapses 2017

This Briefing provides an overview of the ethical concerns and lapses that were recorded in the IBE’s weekly media monitoring throughout 2017. ¹ Last year, we recorded a total number of 508 stories involving lapses of multinational corporations with a UK presence. This analysis focuses both on lapses by sector and the type of ethical issues observed.

While this briefing does not give detailed information about the severity of ethical lapses in the business community, it does give indications about the sectors which were most cited and the nature and frequency by which ethical issues occurred. Graph 1 and 2 summarise the main findings of this briefing.

total number of headlines. There was a slight decrease in the lapses concerning the mining and extractive sector as well as the automobile industry. They still appear frequently in the media, but are topped by issues reported about the gig economy (new for 2017) and the leisure and travel sector.

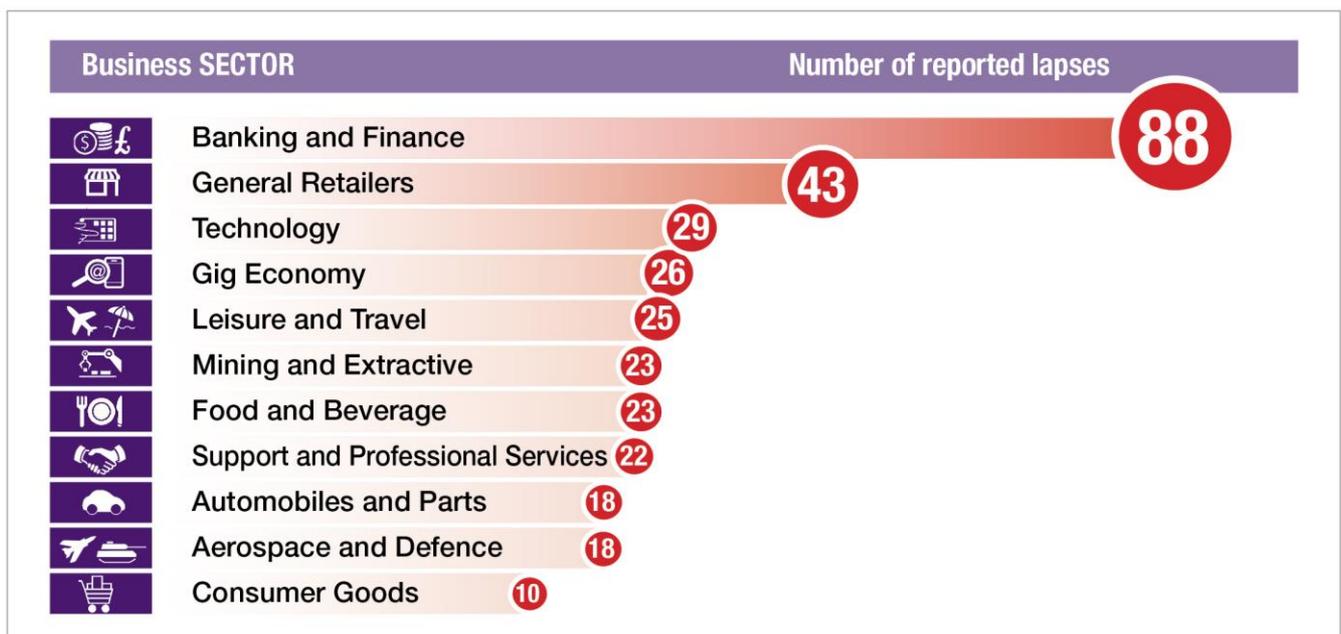
Lapses by Sector

As in previous years, in 2017, the highest number of ethical lapses was recorded in the financial sector, followed by the retail sector and then by the technology sector. Collectively, these sectors account for 31% of the

FINANCE

The financial sector suffered from a number of ethical lapses throughout 2017. However, the overall percentage of lapses which have been reported in the news during the previous year has fallen from 26% in 2016 to about 18% of all documented news stories in

Graph 1 Most reported ethical lapses in 2017 by sector



¹ The IBE monitor 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](#)'.

2017.² Most issues concerning the financial and banking sector are related to corporate culture and behaviour. A weak ethical culture in an organisation may not only result in instances of individual misbehaviour, but also contributes to a number of other ethical lapses in this sector, such as the mistreatment of customers, the treatment of employees as well as insider trading and mis-selling. Some of the stories that were reported under this category last year, dealt with lapses that have actually happened in previous years. This perhaps indicates that the public demands greater openness about business culture and the media responding with a more active approach on exposing lapses which have happened in the past. It could also indicate that the sector is continuing to work at “getting its house in order”.

Fraud ranks second on the list of reported misconduct within the financial and banking sector. An increased number of stories around fraud in this sector focused specifically on instances in which financial organisations were fined by government regulators. This indicates an increased enforcement activity on behalf of regulators, which underlines the importance of preventative measures, such as an effective and well-functioning ethics programme.

As in previous years, stories about excessive executive pay relating to the financial sector frequently appeared in the news, indicating that executive remuneration remains an issue of concern in this sector.

With an increase in digitalisation of communication and infrastructure technologies in the financial sector, cyber-attacks on financial institutions featured more prominently in the media in 2017. Although the total number of reports on cybercrime which are specific to the financial sector remained small, we expect this to become an issue of greater concern for financial organisations and regulators alike in the years ahead.

RETAILERS

Since 2010, the retail industry remains the second most mentioned sector which suffered ethical lapses. The majority of reported news stories in this sector focused on stakeholders, particularly the mistreatment of retailers’ own employees. Two years after the introduction of the Modern Slavery Act,³ retailers also continue to struggle in

minimizing the risk of exploitation and child labour in their supply chains. Reports about retailers linked to human rights violations appeared in the media frequently over the last year.

Box 1 *What is Cybersecurity?*

Cybersecurity refers to the technologies and controls which organisations use to protect their digital data. Advances in technology mean that more sensitive data is digitalised (and stored online), which makes organisations vulnerable to attacks by hackers.

Breaches of cybersecurity can diminish consumer trust, result in legal consequences and cause long term reputational damage to organisations. Therefore responsible organisations need to ensure that they have in place measures to protect themselves and their stakeholders.

Hackers use malicious emails and software or fake websites to carry out cyber-attacks in order to gain access to confidential data. Cyberattacks can result in the theft of financial or personal data or interrupt the working of websites and servers, which can temporarily prevent organisations from carrying out their operations. To prevent breaches and tighten their cybersecurity, several organisations have experimented working with “ethical hackers”, who get hired to find faults and security flaws in their organisations’ systems before actual hackers do.

TECHNOLOGY

In today’s fast paced business environment, companies increasingly rely on technological tools to help them detect ethical lapses before they occur. While technology can often be a solution to dealing with the large amounts of data, it should not go unnoticed that the problem of insufficient data security and privacy protection can also create an issue in itself.⁴

In 2017, technology (including telecommunications) remains the third most frequently mentioned sector, with 7% of the overall stories which were recorded accounting for ethical lapses in this industry. Fraud and theft as well as bribery and corruption each accounted for 15% of the

² IBE Business Ethics Briefing, Ethical Concerns and Lapses, 2016, https://www.ibe.org.uk/userassets/briefings/b55_concernsandlapses2016.pdf

³ [Modern Slavery Act 2015](#)

⁴ The IBE discussed some ethical issues related to the use of technology and artificial intelligence in business in the Business Ethics Briefing IBE (2018) Business Ethics and Artificial Intelligence.

stories in this industry. The media paid particular attention to a high profile bribery case in the telecommunications industry, of which details continued to emerge throughout the year.

In 2017, ethical misconduct in the technology sector was less clustered around specific issues, but instead covered a broad spectrum of topics, from a few stories on data protection and privacy to tax evasion and unethical marketing practices. A trend that aligns with our findings from previous years is the reoccurrence of a small number of large tech corporations, which are frequently the main subject of news stories in the technological sector.

GIG ECONOMY

For the first time this year, this briefing includes a category dedicated to the gig economy. Throughout the year, the frequency of media stories relating to this sector increased significantly, to the extent that this sector now presents the fourth largest sector in our briefing on ethical lapses.

In 2017, especially during the second half of the year, we observed an increased number of reports on ethical issues involving the gig economy. It is notable that the main issues in this sector revolved around the treatment of employees with particular focus on fair pay, working conditions, insurance policies and employment rights. Other stories focused on the difficulty of defining clear regulations and policies in this sector. Given its unique operating model and its recent rise in popularity, companies and the regulator alike seem to struggle with setting clear guidelines and ethical standards for gig economy businesses.⁵

At the same time, the spotlight has been on the behaviour and internal company culture within gig economy businesses. Around 36% of reported stories described how a flawed incentive structure or a poor ethical culture facilitated instances of sexual harassment, poor treatment of customers and discrimination against individuals. A significant portion of the stories reported in this sector included allegations against top-level executives. This is a concern as other research shows

the importance of leadership in establishing and maintaining an ethical culture.

Box 2 *What is the Gig Economy?*

The gig economy is defined as the “trend of using online platforms to find small jobs, sometimes completed immediately after request (essentially on-demand)”.⁶ Instead of being permanently employed, gig economy workers can use online platforms to pick up work on a flexible basis whenever they see fit. Popular gig economy services include professional services, such as cleaning and skilled manual work (TaskRabbit), delivery and courier services (Deliveroo and Just Eat) or driving and ride hailing services (such as Uber).

The gig economy is characterised by flexibility of work. Instead of regular contract hours and wages, workers can pick up work on a flexible basis and get paid accordingly. As a result, they are not entitled to statutory employment rights, such as the national minimum wage and in most cases do not receive holiday or sickness pay as well as no pension contributions. Although this is now being challenged in the UK courts.

OTHER SECTORS

Ethical risks in business feature most prominently in the above mentioned sectors. However, that does not mean that other sectors are immune to ethical lapses. As illustrated in Graph 1, we observed a wide range of other sectors which were affected by instances of ethical misconduct in 2017.

Almost 5% of all reported stories on business ethics focused on issues in the mining and extractive sectors. This is in line with the previous year, in which such organisations caught frequent media attention because of bribery and corruption accusations as well as instances of fraud and theft.

Slightly more attention has been paid to the aerospace and defence sector this year, which now makes up around 4% of the mentioned lapses in 2017. Corruption and bribery were of particular concern in this sector, followed by the mistreatment of employees, behaviour and culture.

⁵ IBE (2015) *Fairness in the Workplace: staffing and employment contracts*. It provides some guidance on issues such as zero hour contracts and employee rights which gig economy businesses have to deal with.

⁶ Royal Society for the encouragement of Arts, Manufactures and Commerce, 2017, <https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2017/07/what-is-the-gig-economy>

In other sectors, incidences in the food and beverage sector as well as in support and professional services has decreased slightly compared to 2016. In the food and beverage sector, this can partly be explained by the addition of a dedicated category for the gig economy.

Professional consulting firms were most frequently mentioned in the context of with corruption and bribery and for alleged failings in audits. Most reported stories focused on the poor quality of external audits, which resulted in large fines imposed by regulators on professional audit firms. Perceived failings in audits can undermine trust in the capital market as shareholders and investors rely on the assurances provided by the audit in their decision making. However, while the media asserted that consulting firms are likely to be playing their part in this, the reports also acknowledged the difficulty of the process. Auditors can only provide “reasonable assurance”, not “complete assurance”, as they can only audit the information that is shared with them.

Issues of Concern

The biggest issues of concern in 2017 were those relating to culture and behaviour. 14% of the total number of ethical lapses we recorded were specifically related to this category. All sectors which we captured in this briefing were affected by ethical lapses regarding culture and behaviour. The finance and banking sector alone accounts for almost a quarter of the stories relating to poor corporate cultures and unethical and dysfunctional behaviour. Another 14% of reported stories were recorded from the gig economy sector.

Box 3 *Culture and Behaviour*

Corporate culture is a term that is used to describe the way people behave toward those with whom they have dealings inside or outside an organisation. The term refers to the type of behaviours which a company will promote and encourage and those that it will not tolerate. The determination of such behaviour depends to a great extent on the values set and practiced by the Board and top management, as well as their cascading through the organisation. It is in effect the way ethical values of the organisation are applied in all internal and external relations.

A healthy corporate culture is vital to protect and generate value for the organisation and it is therefore important to have a continuous focus on culture. Sir Winfried Bischoff, Chairman of the Financial Reporting Council (FRC), has identified three important issues for companies to consider in taking action on culture:

- **Connect purpose and strategy to culture.** Establishing a company's overall purpose and the strategy to achieve this that reflects the company's desired culture is key in supporting the values and driving the correct behaviours.
- **Align values and incentives.** Financial and non-financial incentives should be appropriately balanced and linked to behavioural objectives.
- **Assess and measure culture.** Companies need to identify the indicators of culture that are more relevant to their business and analyse them in a meaningful way.⁷

The treatment of employees remains an issue of concern. As in previous years, instances of mistreatment of stakeholders was the second most frequently mentioned category in 2017. The media mostly covered issues relating to unfair working conditions, unfair wages and the abuse of gig economy and zero hour contract workers.⁸ These findings correspond to the latest IBE survey on Attitudes of the British Public on Business Ethics, where 27% of respondents cited exploitative labour as an issue which needs to be addressed.⁹

Reports on fraud remain the third most frequently mentioned issue of concern in 2017. However, last year, more attention was paid to issues relating to diversity and discrimination as well as executive remuneration. Stories on diversity and discrimination focused almost exclusively on the difference in pay between men and women in various industries. Later in the year, following the cascade of media stories on sexual harassment in the movie industry, the media also picked up stories relating to sexual harassment in other sectors.

⁷ FRC (2016) [Corporate Culture and the Role of Boards](#)

⁸ As opposed to gig economy workers, zero-hour contract workers have “employee status”, which for example gives them access to insurance as well as holiday and sick pay. They are also entitled to the National Minimum Wage and are protected against unfair dismissal.

⁹ IBE (2017) [Attitudes of the British Public to Business Ethics - 2017 Survey](#)

Graph 2 Most reported ethical lapses in 2017 by issue



Conclusion

In 2017, for the fifth year in a row, the finance, retail and technology sectors continue to register the highest number of ethical lapses. On the other side the media seems to rarely pick up business ethics news from other sectors, such as the charity or pharmaceutical sector. This could be due, in part, to the public interest in sectors which the public – and the media’s readers – have more direct contact with. This may not necessarily be an indication that other sectors are without issues of their own.¹⁰

Likewise, a large majority of the stories recorded in 2017 mainly focused on ethical lapses in the negative sense. Organisations were frequently criticised and condemned for unethical conduct. This may be an indicator that organisations are still struggling to effectively implement, embed and manage their business ethics programmes. Ethics news is often negative by nature – examples of good practice do not make headlines. However, the IBE exists to promote good practice and it should not go unnoticed that there also have been some positive changes in the way that organisations operate, with many companies changing business practices to align better

with their values. Reported incidences of bribery and corruption also seem to have decreased in 2017, perhaps due to the more active enforcement of regulators across the world.

With the gig economy featuring so prominently in the headlines in the previous year, the ethical implications of new operating models were a topic for fierce discussion. By disrupting conventional business models, new ethical issues continued to challenge organisations and regulators alike.

At the same time, the popularity and rapid growth of gig economy business perhaps also indicates a shift towards the consumer as an ethical decision maker. Based on their own preference and their assessment of ethical values, benefits and other costs, consumers are able to choose whether and how they use a company’s services, and are vocal about their displeasure. 2017 also saw criticism of companies over social media reach viral proportions – the #deleteuber campaign and the viral video of United Airlines staff mistreating a passenger being clear examples.

¹⁰ This research is based on qualitative analysis of the main UK and international newspapers. This methodology has a degree of subjectivity and the data collected is not statistically representative. Therefore some media stories may not have been included in the IBE’s weekly media monitoring.

Media reports raise awareness and put greater scrutiny on how organisations are carrying out business. This can be seen as a first step towards improving the ethical dimension of business cultures worldwide. But as we have seen consumers and the general public are no longer relying on traditional media reports to form their opinion of business. They are also taking matters into their own hands. It is not only the frequency of reporting on these issues, but also the speed by which topics pick up momentum. A prime example may be the #metoo campaign about sexual harassment in the movie industry, which quickly, due to the means of social media, developed into a global movement against sexual harassment in other industries.

This example shows that social media has become not only an accelerator for news but also an additional layer of scrutiny for organisations from the media, the public and regulators alike. 2017 has shown that it is ever more important for organisations in every sector to take business ethics seriously. Having an effective ethics programme in place, which is embedded in the broader company culture, may be more crucial than ever.



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