



## Ethical Concerns and Lapses 2015

This Briefing provides an overview of major ethical concerns and lapses recorded in the IBE’s weekly ‘media monitoring’ during 2015.<sup>1</sup> The analysis, which is carried out annually by the IBE, is based on 376 news stories involving UK companies and multinationals with a UK presence.<sup>2</sup> The focus is on lapses by sector and then on the ethical issues concerned.

The majority of the news stories of alleged misconduct involved big corporations, with 12 of the 20 most frequently mentioned companies currently listed in the FTSE 350 Index. According to their company websites, 80% of these 20 companies have adopted an explicit set of values and about three in four have a publicly available code of ethics (or similar document).

### Lapses by Sector

As shown in Graph 1, in 2015 the three sectors that registered the most news coverage concerning alleged unethical behaviour were **Finance**, **Retail** and **Technology**.

The finance sector, in particular, stands out. As in previous years, it received the most news coverage of ethical lapses, accounting for more than a quarter of recorded stories (26%).

Retail ranks second, representing 16% of the news items analysed. Technology companies rank third, accounting for 8% of stories reported. These three industries alone are responsible for 50% of the reported ethical concerns and lapses in 2015.

The next section of this Briefing looks at these three sectors in more detail.

**Graph 1 Most reported ethical lapses in 2015, by sector**



<sup>1</sup> The IBE monitor the daily news in the UK for stories of a business ethics nature. Stories which are captured are posted on the IBE website, under ‘Business Ethics News’ – see: <http://www.ibe.org.uk/business-ethics-news/117/>

<sup>2</sup> For the purpose of this analysis each issue raised is only counted once, regardless of the size or the scope of the allegation, or the number of news channels on which it was reported.

## FINANCE

It is of particular note that in 2015, compared to 2014, the prominence of the finance sector appears to be waning, with fewer stories reported (97 in 2015, 181 in 2014) and the gap between it and other sectors becoming smaller. This is consistent with recent IBE analysis which observed that in Britain since 2012 the business ethics landscape has gradually become less dominated by scandals associated with the financial crisis, and new issues have drawn public attention to a wider variety of sectors.<sup>3</sup>

Nevertheless, in the past few years, the financial sector has had a number of controversies the effect of which could still be seen in the media in 2015. However, there is no single issue that stands out as clearly predominant.

**Fraud** was the most common form of wrongdoing present in the media in relation to the finance sector in 2015, with stories split between allegations of financial crime committed by organisations and individuals or groups defrauding their employer.

Issues related to **price fixing** and fines imposed for interest rate rigging (LIBOR, EURIBOR, FX), which were the most frequently reported in 2014, continue to be a focus of media attention in 2015.

A third frequently reported topic in 2015 related to **executive pay**, particularly levels of pay which are considered to be excessive and not accurately aligned with performance.

This analysis also identified a number of stories concerning improper behaviour due to a weak or unethical **corporate culture**, including reports of substantial sums paid in litigation costs for addressing instances of misconduct.

## RETAIL

Retail was the second most mentioned sector in terms of alleged ethical lapses and concerns in 2015, with 62 stories reported. This has been the case since 2010.

The main source of concern in this sector was the **mistreatment of stakeholders**, particularly **staff** and **suppliers**. Although executive pay was the most reported issue across all sectors, as shown in Graph 2, there was also substantial attention focused on remuneration across the wider workforce in this sector.

The debate around the living wage and the subsequent Government announcement in October 2015 to introduce a higher compulsory minimum wage, which will come into force in April 2016, have had considerable impact within the retail industry. Employment contracts were also the subject of news coverage, with particular reference to the use of 'zero hours contracts'.

**Supply chain** issues also featured prominently in stories related to this sector: late payments to suppliers and abuse of power were the most pressing concerns. Cases of human rights breaches in the supply chains of retail companies, such as slave or child labour, were also reported.

## TECHNOLOGY

There were 31 stories involving technology companies, making this sector the third most reported on in 2015. Accounting for 8% of all the stories, it is on an upward trend when compared to 2014, and this reflects the increasing prominence of technology companies and the new ethical risks that have emerged in this sector.

As a consequence of the relatively small number of big companies in the market and the high barriers to entry, it is not surprising that nearly a quarter of ethical lapses in this sector (23%) involved **competition practices**.

The ethical dilemma of addressing both the needs of **privacy** and the requirements of **openness** clearly presented a concern, while the development of the use of Big Data appears to have exacerbated the problem. About a fifth of stories in this industry (19%) involved these contrasting demands.

## OTHER SECTORS

Although the finance, retail and technology sectors featured in the media most frequently in 2015, ethical risks have the potential to affect any company in any sector, and the list in Graph 1 highlights a number of other industries where ethical concerns hit the headlines.

The food and beverage industry was the subject of some degree of media attention. **Mistreatment of staff** and **suppliers** were the most frequently reported issues, as well as **tax**. In a few cases companies were asked to take more responsibility for the promotion of a healthier lifestyle, for example exercising more control

<sup>3</sup> See IBE Survey Reports, [Ethics at Work: 2015 Survey of Employees \(11/11/15\)](#).

on the ingredients used or through appropriate communication of the potential health risks.

Professional services firms, and audit firms in particular, were often mentioned in connection with cases of **fraud**, mostly as a consequence of collusion with their clients or inadequate procedures to detect fraud.

### Issues of Concern across all Sectors

In 2015, the most commonly reported topic was **executive pay**. This is consistent with the results of separate IBE research of the British public in which excessive pay of executive staff was the second most cited matter of concern after tax avoidance schemes.<sup>4</sup> This issue, which accounted for 36 of the 376 stories reported, was especially prominent in the finance sector (11 stories) and retail sector (7 stories).

**Mistreatment of stakeholders** seemed to be a particular focus, both internally – as regards **staff** – and externally with **customers**. Unfair treatment of staff was

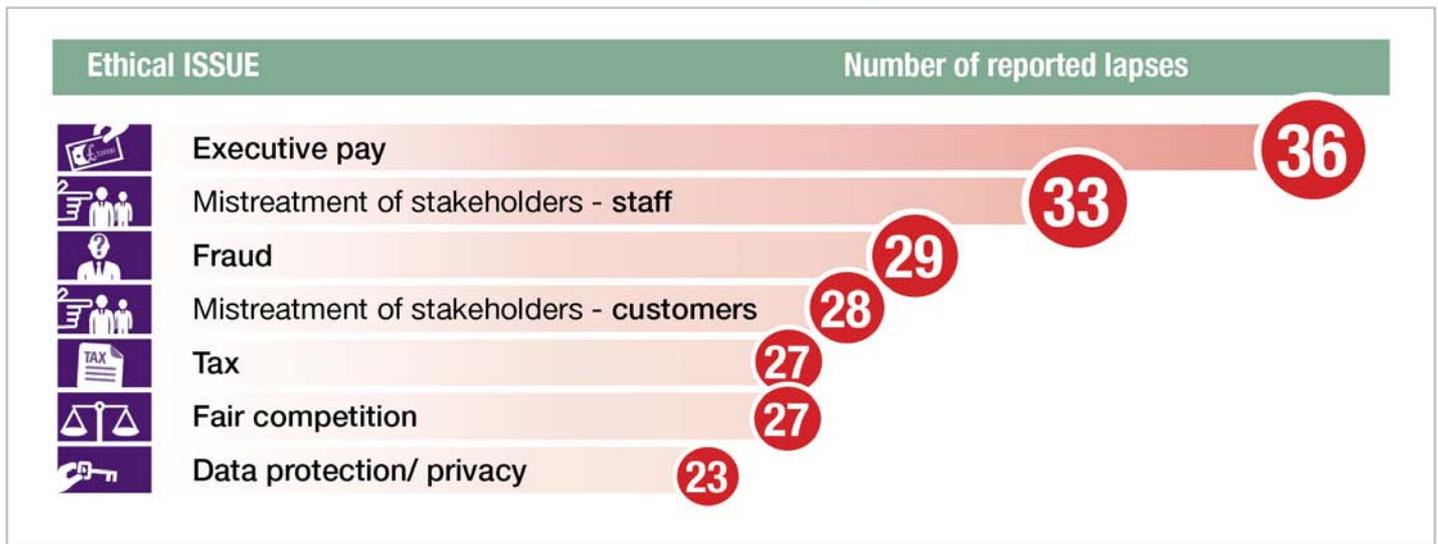
the second most common issue covered in the media, with 33 stories reported. As stated above, the living wage and the use of zero hours contracts have been topical, particularly in the retail sector.<sup>5</sup>

The finance sector gained the highest press coverage about mistreatment of customers. Utility companies followed, criticised especially for allegedly inadequate customer service and management of complaints.

Reports related to **fraud** ranked as the third most reported issue among all sectors. Again this was highest in the finance sector.

Issues around **fair competition**, covered in 27 stories, gained more prominence in 2015 compared to previous years. This represents the fifth most commonly reported ethical issue facing business, together with corporate **tax**. Besides the technology sector, competition issues were reported especially frequently in the telecommunications industry and among extractive companies.

**Graph 2 Most reported ethical lapses in 2015, by issue**



**Box 1: Rises and Falls**

**SECTOR TRENDS**

- The prominence of the finance sector in the media decreased in 2015, although it remains the most reported on industry.
- Stories related to both professional services providers and media were found to be more prominent in 2015 than in 2014.

**ISSUE TRENDS**

- Concerns about executive pay and the mistreatment of employees appear to have received more press coverage in 2015 than in 2014.
- On the other hand, there has been a fall in the prominence of stories relating to speak up concerns.
- In 2015, the number of price fixing cases decreased compared to 2014, where the impact of LIBOR manipulations was particularly significant.

<sup>4</sup> See IBE Survey, *Attitudes of the British Public to Business Ethics 2015*.

<sup>5</sup> The IBE has addressed some of the issues related to the fair treatment of employees in two Business Ethics Briefings:

IBE Business Ethics Briefing [Fairness in the Workplace: Pay](#) Issue 42 (02/07/14).

IBE Business Ethics Briefing [Fairness in the workplace: staffing and contracts](#) Issue 47 (30/04/2015).

## Conclusions

First, the majority of the news stories in 2015 which reported alleged misconduct involved big corporations. Most of these companies are found to have an explicit set of values and a publicly available code of ethics. This suggests that although both of these are important in promoting ethical behaviour, on their own they are not sufficient. It indicates that companies need to take further steps and ensure that their values are effectively embedded into their business, in order to minimise the future risk of such stories featuring in the news.

Second, over the past few years a number of scandals affecting the finance industry's reputation and trustworthiness have put corporate culture in financial firms under closer scrutiny by both the public and regulators. The media has continued to focus on this issue in 2015. The regulators have also acted, with the introduction of the Senior Managers and Certification Regime by the FCA in July 2015 to give clarity on rules to embed personal accountability into the culture of financial firms. However the reduced number of stories recorded that related to the finance sector in 2015, could indicate that some progress in rebuilding public trust in this industry has been achieved. This conclusion is supported by the figures reported in the 2016

Edelman Trust Barometer, where the financial services sector has seen the largest growth in trust amongst the general public over the last five years (+8 percentage points).<sup>6</sup> It does, however (according to Edelman), remain the least trusted industry sector, which highlights the continuing need for such organisations to focus on building an ethical culture.

Third, stories related to fraud continue to be prominent. Whilst fraud is a legal issue, its prevention is one of the key priorities of corporate ethics functions. Organisations will need to continue to focus their efforts in this area and on helping staff to recognise, avoid and raise concerns of fraudulent behaviour.

Finally, the increasing importance of social media has been observed. This is especially so for media companies, where an increase in reported instances of employees disciplined for improper use of social media resulted in the industry being placed much higher in the list of sectors than in 2014. According to IBE reviews of codes of ethics and ethical policies, an increasing number of companies are producing guidance for their staff on this topic and are including reference to this in their code of ethics.



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[research@ibe.org.uk](mailto:research@ibe.org.uk)

<sup>6</sup> See Edelman 2016 Trust Barometer. *Financial Services was the least trusted industry – amongst the general population.*