



Institute of Business Ethics

Business Ethics Briefing

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Concerns & Ethical Lapses, 2009

This briefing provides an analysis of the major ethical concerns and lapses involving UK companies, or multinationals with a UK presence, as reported in the media in 2009.

“High Street retailers accused of exploiting workers in Asia”

“Firm denies bullying customers”

“Tolerance of fraud in business rises”

“Broadband suppliers criticised for false claims about internet speed”

These headlines are a small sample of the type of media reporting of corporate ethical lapses that took place during 2009. While focusing mainly on individual companies, this briefing also encompasses wider allegations and trends that have been identified in the business community as a whole.

The briefing draws on the IBE’s media monitoring analysis. This is done on a weekly basis. It provides a synopsis of relevant items featured in the UK quality news media and includes incidences where legal action resulted.

Given the backdrop of the banking crisis

and together with the global economic downturn there was concern as to whether companies would scale down ethical programmes to cut costs. Another issue that featured (arguably driven by events in Westminster) was the focus on the fiddling of business expenses by staff.

Executive remuneration continued to play a prominent role in the headlines. Large reward packages attracted widespread attention, particularly in organisations that had made substantial redundancies and/or received the support of taxpayer money.

Chart 1: Allegations of misconduct by sector in 2009

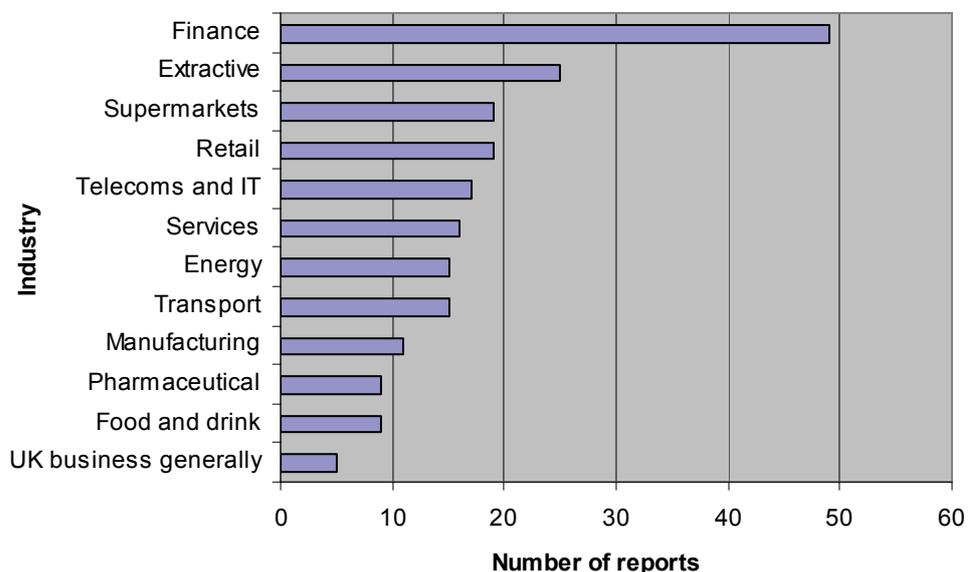


Chart 1 shows that the sectors that attracted the most media attention in 2009 were the financial services industry, extractive companies (covering oil and metal mining companies), supermarkets and retail. In the IBE's last report in 2007 finance was also the most reported-on sector for ethical concerns and lapses, followed by supermarkets and retailers, which have been overtaken in the table of concerns the extractive industry.

Financial services companies (including insurance) accounted for a total of 49 stories over the course of 2009. This is over a fifth of the total media monitoring coverage performed by the IBE during 2009. The most commonly cited issues for this sector concerned executive remuneration and treatment of customers, including interest rate cuts not being passed on and forcing chip and PIN payment methods onto vulnerable customers. Other issues of concern for the financial sector were the treatment of staff (in particular employees who spoke up about unethical behaviour in their organisation) and discrimination.

The extractive sector also attracted significant amounts of media attention during 2009, garnering a total of 25 media stories. The most widely reported issues for this sector were executive remuneration (with shareholder rebellions against reported compensation packages of oil chiefs), environmental matters and allegations of human rights abuses in emerging markets. Oil companies were accused of dumping toxic material in West Africa and of

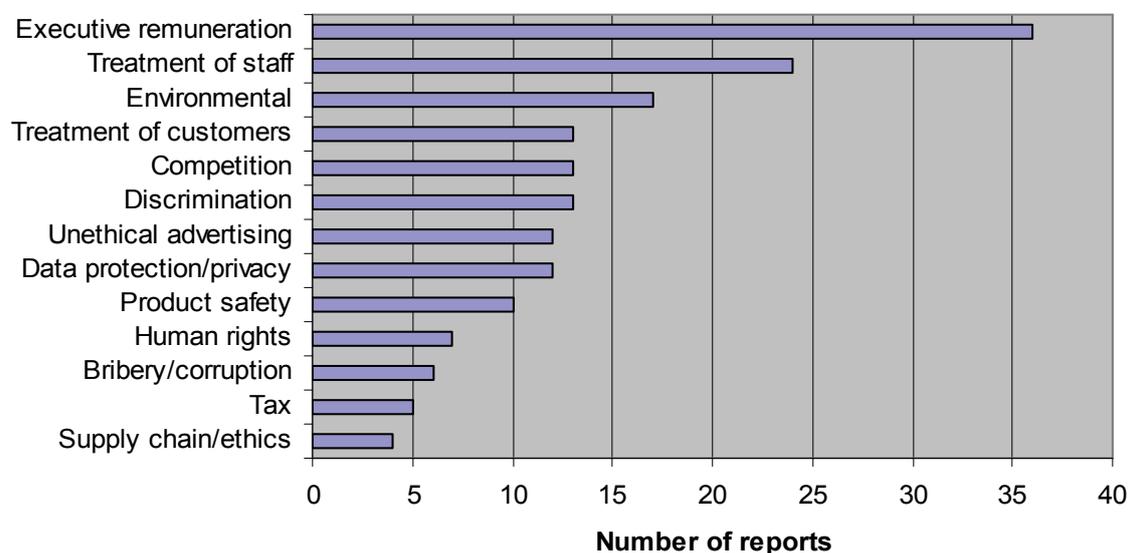
reducing their commitments to greener trading during the course of the year, using the recession as an excuse. Metal mining companies were more often accused of showing scant regard for the welfare of local communities in the developing world if their welfare obstructed plans for new sites.

UK supermarkets' principal ethical lapses concerned their failure to address environmental impacts (particularly the excessive use of packaging) and concerns about treatment of suppliers by supermarkets, including failure to offer a fair price and not paying workers in emerging economies a living wage.

The wider retail sector was also criticised for ethical failings in its supply chain, with household fashion names accused of exploiting 'sweatshop' labour and posing a danger to indigenous communities in Africa. Executive remuneration was also an issue for some retailers.

Companies in the **transport sector** attracted media focus in part because of ongoing investigations into their business by competition authorities. Poor treatment of customers was also an issue for some low-cost airlines and train operators, accused respectively of business practices that levy hidden costs on passengers and not providing customers with the cheapest travel options available. Some low-cost carriers were criticised for false claims about the comparatively benign environmental impact of their flights.

Chart 2: Frequency of issues on which the media reported, 2009



Concerns about the UK **energy sector** primarily involved not offering consumers a fair price and unfair treatment of poor and vulnerable customers. Bullying of smaller suppliers by large energy companies also featured as an ethical issue. The bonuses paid to Ofgem staff generated press controversy given the perception that the watchdog had altogether failed to secure a better deal for the consumer from energy suppliers.

Participants in the **telecommunications** (i.e. telephone and internet service providers) and technology (IT companies) sector were primarily the subject of concerns over the use and protection of customer data, particularly amongst mobile phone operators. For **technology organisations** the main issues involved competition and antitrust, with a number of

companies being subjected to regulatory investigations and/or fines. Executive remuneration and issues of tax avoidance also gained some attention, as did the treatment of customers.

Product safety was the main ethical lapse concerning **pharmaceutical companies**, with reports of untested drugs causing harm to patients. Attempts by large pharmaceutical companies to stifle cheaper competition were also featured in the media during 2009. In a legal settlement, Pfizer drew attention for receiving the biggest ever fine levied on a pharmaceutical company; the fine of £1.4m was imposed by the US Department of Justice for illegally promoting drugs which had not yet been approved by regulators.

Issues reported on

Chart 2 shows that executive remuneration was the dominant issue for the media during 2009, followed by the treatment of staff and environmental issues. This marks a significant change from 2007, when environmental issues

were the most prominent issue, featuring in 35 reports, compared to 17 in 2009. In 2007 executive remuneration was reported on 11 times, a topic which attracted 36 media stories in 2009.

Company type

85 stories covered by IBE media monitoring involved FTSE 100 companies. The majority of the other organisations recorded are leaders in their respective sectors, but are either listed outside the UK (e.g. Pfizer, Microsoft), privately owned (e.g. Trafigura) or the subsidiaries of foreign listed companies (e.g. Asda is owned by Walmart).

While media scrutiny of larger, listed companies is likely to be higher than for other organisations, it is still of concern that a substantial proportion of business malpractice is carried out by large companies whose behaviour has a serious effect upon many customers. Examples of this include

the failure by UK supermarkets to pass on large falls in the cost of staple goods and very long supplier payment terms imposed by some firms. These can run to 125 days (some large companies are even accused of charging a fee for paying an invoice on time) and are believed to have contributed to the closure of 4,000 small businesses in 2009.

All FTSE 100 companies appearing in the IBE media monitoring have dedicated codes of ethics; this suggests that some CEOs are falling short of the values and business practices they claim to adhere to.

Further reading

- IBE media monitoring archives: <http://www.ibe.org.uk/news/ethicsnewsarchives.html>
- IBE Business Ethics Briefing 'Concern and Ethical Lapses in 2007'. Available from: http://www.ibe.org.uk/publications/Briefing_8.pdf

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