

Ethical Concerns and Lapses 2018

This Briefing provides an overview of the ethical concerns and lapses that were recorded in the IBE’s weekly media monitoring throughout 2018¹. It attempts to give an overview of which sectors and issues related to business ethics were most covered in the news. Last year, we recorded a total number of 464 different stories involving lapses of companies 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 provide an indication about the sectors which were most cited, and the nature and frequency of the ethical issues concerned. This has been done by reviewing and recording business ethics news throughout the year. Figure 1 and 2 summarise the main findings of this briefing.

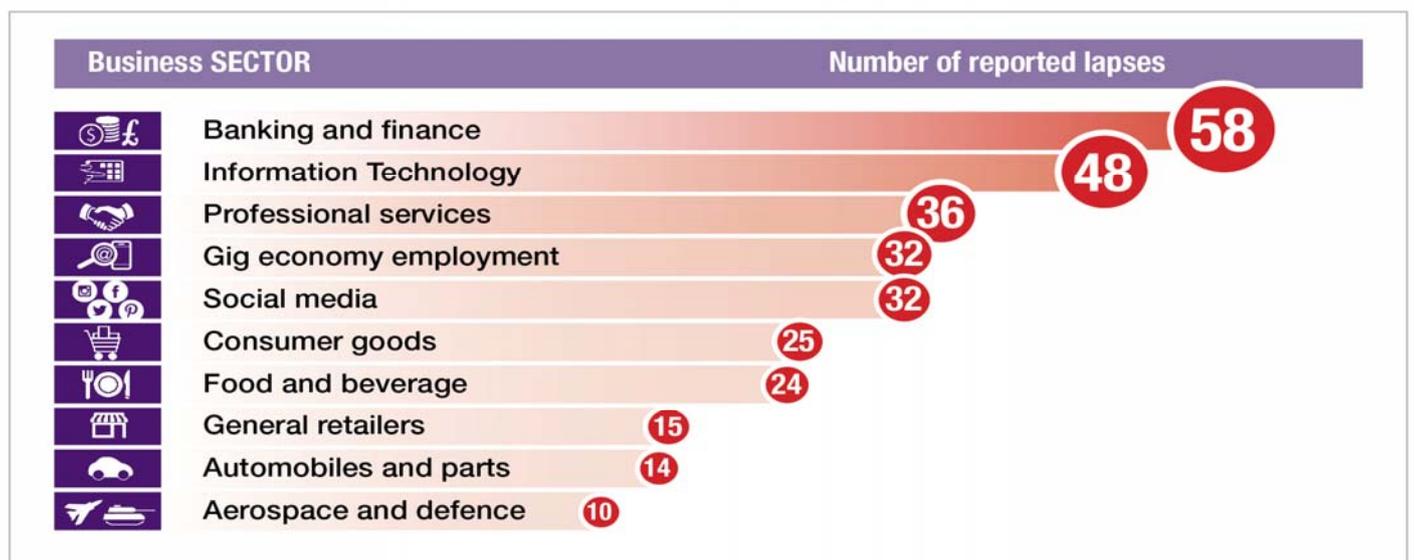
Lapses by Sector

In 2018, the highest number of ethical lapses was recorded in the **banking and finance** sector, followed by the **information technology (IT)** sector and the **professional services** sector (see Figure 1).

Collectively, these three sectors account for nearly a third of the total number of headlines. However, worryingly, the ‘growth’ sectors for reported misconduct are **gig economy employment** and **social media** where there was a marked increase in the number of lapses recorded.

Encouragingly, there was a marked decrease in the lapses concerning the **general retail** sector and the **mining and extractives** sector. In addition, the **general retail** sector received an increasing number of positive mentions this year, particularly relating to environmental commitments reducing food waste and single-use plastics.² The IBE’s *Attitudes of the British Public to*

Figure 1 **Most reported ethical lapses in 2018 by sector**



¹ The IBE monitor the daily news for stories of a business ethics nature relevant to the UK. Stories which are captured throughout the year are posted on the IBE website under the heading ‘[Business Ethics News](#)’

² BBC News (2018) “[What are supermarkets doing to fight plastic?](#)”

Business Ethics survey demonstrates that, after falling since 2008, environmental responsibility has significantly regained focus as an issue of public concern, now equalling the level of the public's concern over executive pay.³

There was also a slight decrease in the reported lapses related to the **automobile** industry and the **aerospace and defence** sectors. While these sectors still appear frequently in the media, they have now been overtaken by several other sectors, including: **social media, consumer goods, gig economy employment** and the **food and beverage** sector.

Whilst some good news stories do occur, the vast majority of the stories recorded focused on negative company actions. These are the ones that form the basis of the analysis throughout this briefing.

BANKING AND FINANCE

The banking and finance sector has suffered from a number of reported ethical lapses in the last few years and continues to be top of the list in 2018. However, the overall percentage of lapses which have been reported in the news has fallen from 18% in 2017⁴ to about 13% of all documented news stories in 2018. Most issues concerning this sector are related to corporate behaviour and culture.

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 fraud and money laundering, the mistreatment of customers, and issues relating to executive remuneration. 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 is looking for greater openness about business culture. As a result, the media is responding with a more active approach to exposing lapses which have happened in the past and it seems that the banking and finance sector is still trying to catch up with the consequences of these prior ethical lapses.

Bribery and corruption ranks second in the list of reported misconduct within the banking and finance sector, after

corporate behaviour and culture. A number of stories around bribery and corruption in this sector arose when financial organisations were fined by government regulators. This indicates an increased enforcement activity by regulators, which is expensive and constricting for companies and underlines the importance of preventative measures (e.g. an effective and well-functioning ethics policy and programme).

As in previous years, stories about executive remuneration frequently appeared in the news in relation to this sector, indicating that excessive pay remains an issue of concern. While this issue is not as prominent as it was in previous years, this year's IBE *Attitudes of the British Public on Business Ethics*⁵ survey demonstrates that it sticks in people's minds as it is perceived as highly unfair. In this year's survey, it featured joint second with environmental responsibility at 24%, only beaten by corporate tax avoidance (33%) as an issue of concern for the British public.

INFORMATION TECHNOLOGY

In 2018, information technology moved from being the third to the second most frequently mentioned sector, with 10% of the overall stories we recorded accounting for ethical lapses in this industry. Data protection and privacy (see Box 1) accounted for 27% of the stories in this industry and 19% of stories were related to behaviour and culture.

The introduction of General Data Protection Regulation (GDPR) in May 2018 fuelled the sharp rise in data protection and privacy headlines seen this year. In essence, GDPR strengthens the rights of individuals who now have "more power to demand companies reveal or delete the personal data they hold"⁶ and the IBE has produced a Briefing entitled *Beyond Law: Ethical Culture and GDPR*⁷ to help readers be more aware of the wider implications of this piece of legislation.

Box 1 – Data protection and privacy

Described as "the oil of the 21st century", personal data is "a resource worth billions to those who can most effectively extract and refine it".⁸ However, given the importance to individuals of keeping their personal

3 IBE (2018) [Attitudes of the British Public to Business Ethics](#)

4 IBE (2017) [Ethical Concerns and Lapses](#)

5 IBE (2018) [Attitudes of the British Public to Business Ethics](#)

6 The Guardian (2018) ["What is GDPR and how will it affect you?"](#)

7 IBE (2018) [Beyond Law: Ethical Culture and GDPR](#)

8 The New York Times (2018) ["As Facebook Raised a Privacy Wall, It Carved an Opening for Tech Giants"](#)

information safe and secure, it comes as no surprise that data protection and privacy stories have featured heavily in the news in 2018.

Data protection laws aim to “protect people’s data by providing individuals with rights over their data, imposing rules on the way in which companies and governments use data”.⁹ In 2018, the UK Government updated the Data Protection Act, which determines how “personal information is used by organisations, businesses or the government”.¹⁰

During the course of 2018, several companies saw their systems hacked resulting in the loss of confidential employee or customer information. Such media headlines also made individuals question how their data is stored and used, which forced some companies to defend the way they manage the personal information of their customers and other stakeholders.

Apart from the two most mentioned topics above, ethical misconduct in the technology sector covered a broad spectrum of topics this year. This spectrum ranged from a few stories on diversity and discrimination and treatment of customers, to a few stories on tax and fraud. A trend that aligns with our findings from previous years is the reoccurrence of mentions of a small number of large tech corporations, which are frequently the main subject of news stories in the technology sector.

PROFESSIONAL SERVICES

The number of ethical lapses recorded for the professional services sector has increased since 2017. Last year, it was the eighth most commonly mentioned sector, it now comes out third.

Within this broad category, audit firms have been in the news more than last year following a number of revelations. The main issues in the sector in 2018 concern behaviour and culture, followed by the treatment of employees, speaking up/whistleblowing (see Box 2) and conflicts of interest.

Like the technology sector, ethical misconduct in the professional services sector was not tied to specific issues, but rather covered a broad spectrum of topics.

While the most frequently mentioned issue category was behaviour and culture (25%), issues related to the treatment of employees and whistleblowing (together accounting for 25% of mentions) and conflicts of interest and fraud (together accounting for 16% of mentions) also featured frequently in this sector.

Box 2 – Speak Up/Whistleblowing

The freedom to raise concerns is a core component of a supportive ethical business culture, where employees feel confident they will be supported to do the right thing. Of this year’s media mentions, concerned with this issue, several stories reported on the mistreatment of those reporting and companies being fined for breaching their whistleblowing policy.

Among the stories featured for this topic were instances in which internal reporters had warned companies about their misconduct without being heard and an individual facing legal action for breaching their company’s whistleblowing policy. There were also reports of companies having to pay fines or compensation to whistleblowers for breaching their rights, such as disregarding their request for anonymity.

The IBE 2018 *Ethics at Work UK* survey¹¹, makes it clear that employees are concerned about the impact of speaking up and whether their circumstances will improve as a result of doing so. Reporting concerns require courage and determination, and employees will not take the risk if they fear retaliation or believe that nothing will be done after they raise their concerns.

GIG ECONOMY EMPLOYMENT

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

The gig economy is defined as “a labour market characterised by the prevalence of short-term contracts or freelance work, as opposed to permanent jobs”.¹² Instead of being permanently employed and receiving a

⁹ Privacy International [Data protection](#) website

¹⁰ GOV.UK [Data protection](#) website

¹¹ IBE (2018) [Ethics at Work UK](#)

¹² BBC News (2017) [“What is the ‘gig’ economy?”](#)

regular wage, gig economy workers can use online platforms to pick up “gigs” on a flexible basis whenever they see fit. As a result, they are not entitled to the national minimum wage and in most cases do not receive holiday pay, sick pay or pension contributions as part of their employment contract.

In 2018, we observed a slight increase in the number of reports on ethical lapses involving gig economy employment compared to 2017. It is notable that the main issues in this sector revolved around the treatment of employees with a particular focus on fair pay, working conditions 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 regulators alike seem to struggle with setting clear guidelines and ethical standards for gig economy businesses.¹³ At the same time, the spotlight has been on the behaviour and internal company culture within businesses which use this employment method. While nearly two-thirds of reported stories from this sector concerned the treatment of employees, 9% of mentions dealt with issues relating to diversity and discrimination.

SOCIAL MEDIA

This sector has seen the most significant increase in media mentions since 2017. While this sector is now among the top 5, it only made the top 12 a year ago.

This rise in ethical lapses in this sector is largely due to data privacy as well as behaviour and culture concerns, which count for a combined 69% of the mentions. However, other issue areas such as advertising practices, human rights and cyber security are also mentioned among the headlines relating to this sector.

Although one of the biggest social media companies accounts for most of these mentions¹⁴, other major players are also mentioned frequently in terms of unethical data collection or failing to adhere to government regulation.

While GDPR affects every company, those hardest hit are those that hold and process large amounts of

consumer data and this may explain why social media companies have featured in the news more prominently this year.

In relation to social media companies, the spreading of fake news and potential interference from outsiders in US and UK elections were among the most common headlines underlining how easily personal data and privacy can be abused.¹⁵

OTHER SECTORS

Ethical lapses in business featured most prominently in the above-mentioned sectors last year. However, as illustrated in Figure 1, we continued to observe a wide range of other sectors which were affected by repeated instances of reported ethical misconduct throughout the year.

Around 5% of the stories we recorded focused on issues in the food and beverage sector. 25% of mentions for this sector concerned the treatment of employees. Other issues included behaviour and culture, diversity and discrimination, product safety and quality as well as sustainability.

Slightly more attention has been paid to issues around consumer goods, which makes up around 5% of the mentioned lapses in 2018. Sustainability and the treatment of employees were of particular concern in this sector, followed closely by treatment of customers, product safety and quality, behaviour and culture as well as diversity and discrimination.

Issues of Concern

Irrespective of sector, the biggest issues of concern in 2018 were those relating to **the treatment of employees** and **behaviour and culture** (see Figure 2 and Box 3). Collectively, 35% of the total number of ethical lapses recorded were related to these categories and all the sectors we recorded in this briefing were affected by ethical lapses involving these two issues. The finance and banking sector alone, accounts for 18% of the stories relating to poor corporate cultures and unethical behaviour.

Instances of mistreatment of stakeholders, including employees, was the most frequently mentioned category

¹³ The IBE (2015) [Fairness in the Workplace: staffing and employment contracts](#) provides guidance on gig economy issues such as zero hour contracts and employee rights.

¹⁴ The Guardian (2018) [“Facebook deletes accounts over signs of Russian meddling in US midterms”](#)

¹⁵ Bloomberg (2018) [“Facebook Says Data on Most of Its 2 Billion Users Is Vulnerable”](#)

in 2018. The media mostly covered issues relating to unfair working conditions and wages, as well as the abuse of gig-economy and zero-hour contract workers.¹⁶ These findings also correspond to the latest IBE survey on *Attitudes of the British Public on Business Ethics*, where 21% of respondents cited exploitative labour as an issue which needs to be addressed.

Box 3 – Behaviour and culture

Corporate culture is the beliefs and behaviours that govern the vision, values, and practices of an organisation. The term refers to the type of behaviours that organisations wish to encourage and those that they will not tolerate.

The category behaviour and culture covers any story where a company has failed to meet expected ethical standards in relation to its employees, customers, suppliers, the general public or other stakeholders. Any company mentioned in such a news story often suffers reputational damage and may be implicated in legal proceedings for breaking the law or to attempt to relieve the damage caused.

In the banking and finance sector, for instance, reports of financial misconduct and wide gender pay gaps featured among the behaviour and culture headlines in 2018. In the general retail sector, one company was revealed to have a culture of ‘forced hugging’ and in another, an

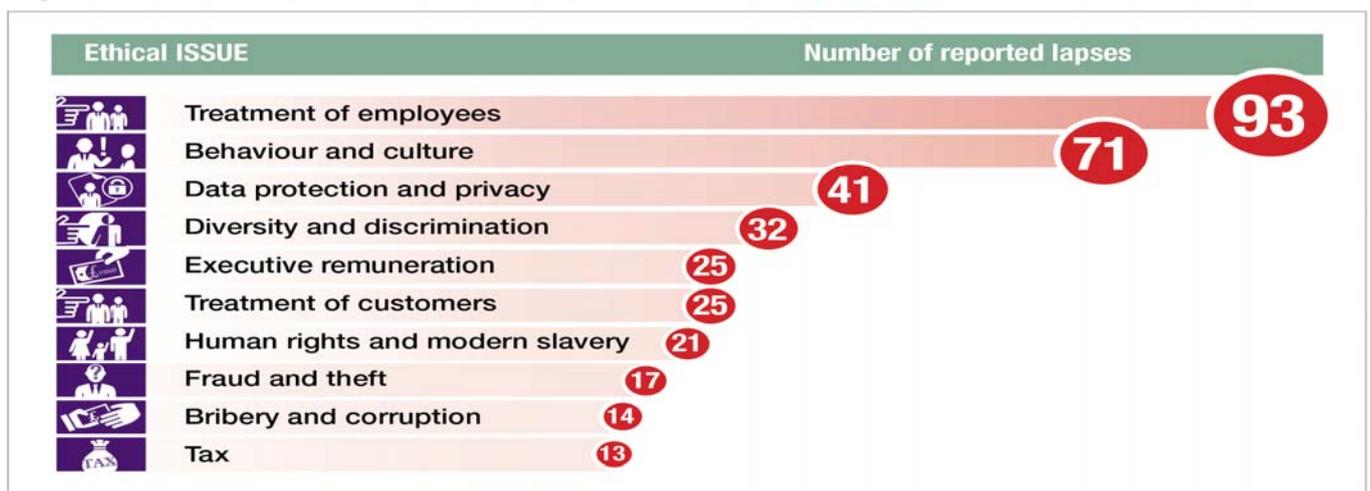
employee had to quit after making offensive remarks about vegans.

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 an organisation’s culture. This year’s IBE Board Briefing entitled *Culture Indicators: Understanding corporate behaviour*¹⁷ reveals that company directors are aware that culture cannot easily be measured. However, company boards can and do have access to a range of information that will shed light on the drivers of their behaviour that may help them improve their overall culture.

Reports on data protection and privacy were the third most frequently mentioned issue of concern in 2018. However, in 2017 this issue was not even mentioned among the top 9 concerns. This is most likely due to the focus put on data protection and privacy as a result of GDPR (see Box 1). This year, more attention has also been paid to issues relating to diversity and discrimination as well as executive remuneration, with mentions relating to fraud and theft as well as bribery and corruption falling substantially.

Stories about diversity and discrimination mostly focused on the difference in pay between men and women in various industries, but also highlighted how men and women are sometimes treated differently in the

Figure 2 **Most reported ethical lapses in 2018 by issue**



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¹⁶ Like workers in the gig economy, zero-hour contract workers do not get guaranteed hours or much job security from their employer. However, unlike gig economy workers, zero-hours contract workers are seen as employees in some sense as they are entitled to holiday pay. This research is based on qualitative analysis of the main UK and international newspapers.

¹⁷ IBE (2018) *Culture Indicators: Understanding corporate behaviour*

workplace. The media continued to report on the wave of stories on sexual harassment in the movie industry that emerged last year, and also picked up stories relating to sexual harassment in other sectors.

Conclusion

Media reports raise awareness and put greater scrutiny on how organisations are carrying out business. However, it is not only the frequency of reporting on these issues that matters, but also the speed with which topics pick up momentum. A prime example of this is the #MeToo campaign, starting with reports of widespread sexual harassment in the film industry in 2017, which quickly, due to social media, developed into a global movement against sexual harassment aimed at all industries. The repercussions of this movement for businesses in all sectors can still be felt, and as a result, stories relating to this movement have also featured prominently in the headlines in 2018.

In 2018, as in previous years, the banking and finance sector continue to register the highest number of ethical lapses. On the other hand, the media seems rarely to pick up business ethics stories related to certain sectors, such as the charity or pharmaceutical sectors. The low number of mentions of these sectors in 2018 is comparable to the number of mentions in 2017, despite the charity sector being the subject of at least two major scandals in 2018. This could be due, in part, to the public interest in sectors with which they have a more direct contact and may not necessarily be an indication that other sectors are without issues of their own. However, this could also be because our media monitoring methodology means that we only notice the more significant lapses in these sectors.¹⁸

With gig economy employment featuring so prominently in the headlines in 2018 and 2017, the ethical implications of new operating models were a topic for serious

discussion. Meanwhile, the popularity and rapid growth of gig-economy companies might also indicate a shift towards the consumer as an ethical decision maker.

Organisations were frequently criticised and condemned for unethical conduct. While this is the nature of news reporting, it may also be an indicator that organisations are struggling to implement and manage their business ethics programmes effectively. However, it should be noted that there have been some positive changes in the way that organisations operate in relation to how they do their business.

Incidences in the general retail sector and the mining and extractive sectors, for example, have fallen sharply compared to 2017, relative to other sectors. While these categories featured second and sixth respectively last year, they have now fallen to eighth and twenty-first on the list in terms of number of media mentions. Reported incidents of bribery and corruption have also fallen since 2017, perhaps due to the more active enforcement by regulators across the world.

The ethical lapses of 2018 have reinforced the importance for organisations to consider how they do their business. As demonstrated by this year's IBE *Attitudes of the British Public on Business Ethics* survey, the public seems willing to trust businesses again, but only if businesses are able to step up to the plate when called upon to do so.¹⁹ Organisations that are able to act quickly to minimise the consequences of any scandals are more likely to be viewed in a favourable light by the wider public in the long term.²⁰ Having an effective ethics programme in place, which is embedded in the broader company culture, therefore, appears more crucial than ever if an organisation is to prosper.

This and other Business Ethics Briefings are available to download free of charge from the IBE website:

<http://www.ibe.org.uk/list-of-publications/67/47/>

If there is a topic you would like to see covered, please get in touch with us on +44 (0) 20 7798 6040 or email:

info@ibe.org.uk

¹⁸ 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.

¹⁹ IBE (2018) [Attitudes of the British Public to Business Ethics](#)

²⁰ IBE (2012) [The Recovery of Trust: Case studies of organisational failures and trust repair](#)