MEDIA ETHICS IN FINANCIAL JOURNALISM

An investigation into the situation in South Africa

by

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Declaration

I, the undersigned, hereby declare that the work contained in this assignment is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

ABSTRACT

Financial reporting is one of the most vulnerable sectors of journalism for the occurrence of possible unethical conduct. Financial journalists handle news with financial value and have access to privileged market information which confront them with numerous ethical problems, namely the use of press releases, the influence of public relations, the use of financial jargon, reporting on shares and the securities market, journalists' dependence on analysts' opinions and recommendations, the receipt of freebies and insider trading.

This assignment gives an overview of the incidence of unethical conduct in financial reporting in South Africa. Ethical principles relevant for financial reporting, namely accuracy, truth and deception, fairness, objectivity and conflict of interest are analysed, discussed and illustrated with incidences of possible unethical behaviour in financial reporting.

The research method comprised the scrutiny of business sections of newspapers and articles in finance magazines, articles from the World Wide Web, as well as sources on media ethics and business journalism.

Accuracy in financial reporting is a necessity for sound journalism. The impact of press releases on accuracy in financial reporting was investigated, but did not yield sufficient proof that they necessarily lead to inaccurate reporting. Financial journalists' reliance on the opinions and recommendations of business analysts, however, revealed a significant contribution to inaccurate reporting.

A chore journalistic value, truth establishes trust between the media and the public. Financial reporting should promote understanding of the relevant facts, not only for readers with a keen interest in financial matters, but also for the average audience. South African financial journalists use excessive jargon, arcane financial data and affected language which may confuse and even mislead the general reader.

Share price reporting in South Africa is generally factual and the investigation did not yield any incidences of share punting among financial journalists. Analysts' reports, however, pose a serious threat for media independence as financial journalists rely on their expertise.

Conflicts of interest arise when there is conflict between a journalist's professional loyalties and outside interests. An investigation into possible insider trading in South African financial journalism did not yield any proof of such incidences. The receipt of freebies, however, remains a grey area because most codes of conduct of South African news agencies only prohibit the receipt of freebies which are of more than nominal value.

Recommendations include advanced journalism training courses which will enhance journalists' business writing skills and knowledge of basic Economics and finance, columns in financial publications which explain financial jargon and a greater emphasis on media ethics.

OPSOMMING

Finansiële verslaggewing is een van die mees vatbare sektore vir onetiese optrede in die joernalistiek. Finansiële verslaggewers het toegang tot vertroulike markinligting en doen beriggewing wat finansiële waarde het. Daarom word hulle dikwels gekonfronteer met verskeie etiese probleme, naamlik die gebruik van persvrystellings, die invloed van skakelbeamptes en woordvoerders, die gebruik van finansiële jargon, aandele-beriggewing, die steun op analiste se menings en aanbevelings asook die ontvang van geskenke ("freebies") en die bemarking, aanbeveling of koop en verkoop van aandele.

Hierdie werkstuk gee 'n oorsig van die voorkoms van onetiese gedrag in finansiële verslaggewing in Suid-Afrika. Etiese beginsels wat betrekking het op finansiële verslaggewing, naamlik noukeurigheid, waarheid en misleiding, regverdigheid, objektiwiteit en botsende belange word ondersoek, bespreek en toegelig met die voorkoms van moontlike onetiese gedrag in finansiële verslaggewing.

Die navorsingsmetode het berus op die bestudering van sake-bylae van koerante, artikels en sake-tydskrifte, artikels wat van die Internet verkry is, en bronne oor media-etiek en finansiële verslaggewing.

Noukeurigheid in finansiële verslaggewing is noodsaaklik vir goeie joernalistiek. Die ondersoek na die invloed van persvrystellings op die noukeurigheid van finansiële verslaggewing het nie voldoende bewyse gelewer dat noukeurigheid ingeboet word nie. Dat finansiële verslaggewers egter steun op die mening en aanbevelings van analiste het getoon dat analiste se menings en aanbevelings dikwels tot onakkurate verslaggewing lei.

Die waarheid is 'n kernbeginsel in joernalistiek en bewerkstellig vertroue tussen die media en die publiek. Finansiële verslaggewing behoort 'n begrip van die toepaslike feite te bevorder – nie alleenlik vir lesers wat belangstel in finansiële aangeleenthede nie, maar ook vir die gemiddelde leser. Finansiële verslaggewers in Suid-Afrika gebruik oormatige jargon, ingewikkelde finansiële data en geaffekteerde taal wat die gemiddelde leser kan verwar en mislei.

Aandele-beriggewing in Suid-Afrika is oor die algemeen feitelik en die ondersoek het nie getoon dat finansiële verslaggewers aandele bemark of aanbeveel nie. Analiste se verslae bedreig egter die onafhanklikheid van die media, omdat finansiële verslaggewers steun op hul kennis.

Botsende belange kom voor indien konflik ontstaan tussen 'n joernalis se professionele pligte en belange van buite. 'n Ondersoek na die moontlikheid dat Suid-Afrikaanse joernaliste hul eie aandele bemark of aanbeveel het egter geen bewyse van dergelike gevalle opgelewer nie. Die ontvang van geskenke ("freebies") is egter 'n moeilike kwessie, omdat die meeste gedragskodes van Suid-Afrikaanse nuusagentskappe slegs die ontvang van "freebies" verbied indien dit 'n nominale waarde oorskry. Aanbevelings sluit in gevorderde joernalistieke opleidingsprogramme wat joernaliste se finansiële skryfvermoë en kennis van Ekonomie en finansies verskerp, rubrieke in finansiële publikasies wat finansiële jargon omskryf asook 'n beklemtoning van die belangrikheid van media-etiek.

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Chapter 1: Introduction

1.1 Background

The importance of financial and commercial news in a democratic society is indisputable. Justice Blackmun wrote (as cited in Day, 2000: 25), "As to the...interest in the free flow of commercial information...that interest may be as keen, if not keener by far, than...interest in the day's most urgent political debate." This extract was actually written in defence of the importance of advertising in a democratic society, but it is equally relevant for the dissemination of financial news. In a world where people are becoming more and more obsessed with money, interest in financial news is also increasing.

In his work on media ethics, Retief investigates which sectors of journalism are the most vulnerable to conflicts of interest and concludes, "And yet certain types of journalists are more at risk than others" (Retief, 2002: 138-9). Under these types he also lists financial journalists.

Due to the fact that financial journalists handle news with financial value they have a special responsibility. "As part of the chain of information dissemination, business journalists are responsible for maintaining the level playing field: [the] concept of fair play that holds that no investor should have an advantage over another because of access to privileged information" (Kluge, 1991: 244). Having access to privileged information puts them in an advantageous position, which may raise numerous ethical issues. Works on media ethics and sources on financial or business journalism in particular have identified the following ethical problems in financial reporting:

- Financial news is very exclusive and, although financial publications are readily available on the shelves, the content often alienates the general public. Furthermore, financial reporters often do not make the effort to demystify financial terms.
- Editors are pressurised into placing advertorials and promoting public relations to ensure that their publications remain financially viable. In many instances tight deadlines tempt journalists to rely on press releases without verifying the facts, which causes inaccurate reporting. Pressure for profit has also changed many editors into marketers, which may cause conflicts of interest.

- There are more temptations present in financial reporting, especially where journalists report on shares and when they are personally involved in the acquisition and selling of shares. Furthermore, financial reporters are often faced with the dilemma of whether to accept or reject gifts or so-called freebies.

1.2 Research Problem and Objectives

In the past the South African media had to concentrate mainly on media laws and regulations due to strict government regulations. The media was under much pressure to "stay in business" (De Beer, 1998: 291) and therefore the subject of media ethics has not been much of a focal point until recently.

Not many South African works on the media have been dedicated in their entirety to media ethics. The most extensive publication on South African media ethics is *Media Ethics: An introduction to responsible journalism*, by Johan Retief, published in 2002. Retief mostly draws on local scenarios as case studies and acknowledges that financial journalists, in particular, must be extremely vigilant as they can play an important role in moving share prices (Retief, 2000: 139). However, the ethical issues financial journalists face go beyond their mere influence on the securities market.

In 2002 Lucas M Oosthuizen published another work on media ethics namely, *Media Ethics in the South African context: An introduction and overview*. Based on public philosophies of communication and ethical theory Oosthuizen's book gives an introduction to and overview of the subject. Although Oosthuizen's book neither focuses on South African case studies nor financial journalism per se, it does provide valuable guidelines for all media practitioners enabling them to make sound ethical decisions. For the purposes of this assignment Oosthuizen's discussion of the media and advertising provided vital information as to the extent to which advertising may jeopardise media independence. Objectivity and media independence will be discussed in Chapter 4.

According to De Beer (1998:291) the media public in South Africa is in many instances uninformed and relatively immature, which places more emphasis on the foundation of media ethics, namely the public's right to know. Many South African readers are also less sophisticated than their Western counterparts and financial news has been regarded as elitist. The public is therefore, to a great extent, uninformed and unbalanced media critics (De Beer, 1998: 291).

Financial journalism is not sensitive enough to these issues and often leaves the general reader out in the cold. This also creates a platform where an uninformed public is misled.

The purpose of this assignment is to give an overview of the incidence of unethical conduct in financial reporting in South Africa. A code of ethics which specifically pertains to financial reporting, will be discussed. The five cornerstones of this code of ethics relevant for financial journalism, namely accuracy, truth and deception, fairness, objectivity and conflict of interest will be analysed based on Retief's book on media ethics. These focal points will be illustrated with instances of possible unethical behaviour in financial reporting. Specific reference will be made to the use of financial jargon, advertorials, the influence of public relations and press releases on accurate reporting and the reader's opinion, the influence of financial pressure on media independence, as well as share price reporting and the receipt of so-called freebies.

Finally, suggestions will be made to ensure that financial news is more accessible to the general public as well as ways in which ethical pitfalls may be avoided and unethical conduct be rectified.

1.3 Research Methodology

1.3.1 Information sources

The research methodology was based on information obtained from primary and secondary information sources. The literature comprised sources on media ethics in general, sources on financial journalism, as well as articles and stories in finance magazines and business sections of newspapers. Three interviews with financial journalists were also conducted in 2001 and 2002.

The Internet was also a valuable source of information. It provided access to the archives of newspapers, articles on ethical issues in financial reporting, business ethics and financial glossaries.

1.3.1.1 Primary information sources

The following primary information sources were consulted:

- Newspapers
- Finance magazines
- Personal interviews.

1.3.1.2 Secondary information sources

The following secondary information sources were consulted:

- Information sources on media ethics
- Information sources on financial journalism
- The Internet.

1.3.2 Research method

1.3.2.1 Literature review

The idea to choose financial reporting as the topic for this assignment originated at an interview conducted with a Cape Town based freelance financial journalist who does not want to be identified. The journalist is aware of various ethical pitfalls stepped into by financial reporters such as the extensive use of press releases by journalists, reporting on shares, the use of financial jargon which may exclude the general reader, as well as the receipt of freebies.

The first step was to scrutinise the content of financial publications, such as business sections of newspapers and articles in finance magazines to ascertain whether there would be sufficient information on this topic. Reading these sources also provided a valuable overview of and background on financial news.

The second step was to draw several articles from the Internet about media ethics in financial journalism in order to establish to which extent unethical conduct does occur in financial journalism. The websites of American media institutions, such as the Poynter Institute, American Journalism Review and especially the Columbia Journalism Review (CJR) provided helpful information in this regard.

Thirdly, extensive reading was done on the subject of media ethics and business journalism which outlined the following ethical issues: accuracy, truth and deception, fairness, objectivity and conflict of interest.

Finally, examples of possible ethical pitfalls were taken from various South African newspapers and magazines to illustrate the hypotheses made in the Research Problem.

1.3.2.2 Exposition of assignment

The following cornerstones of media ethics will be discussed and illustrated with scenarios which may lead to possible unethical conduct in financial reporting:

- Chapter 2 - Accuracy in financial reporting

Accuracy is of utmost importance for sound, ethical journalism. This chapter will focus on the utilisation of press releases and the reliance on analysts' reports and recommendations will be analysed to determine if they impact on accuracy in reporting. Articles from newspapers, magazines, the Internet as well as personal interviews will be analysed to determine the extent to which accurate reporting may be forfeited by press releases and analyst reports.

- Chapter 3 - Truth, deception and fairness

As a fundamental journalistic principle truth establishes trust between the media and the public. In this chapter truth, deception and fairness will be discussed as cornerstones in financial journalism. Clips from newspapers and magazine articles and articles on the Internet will be investigated to determine if the terms and word choice in financial journalism uphold truthful, balanced and fair reporting.

- Chapter 4 – Objectivity and media independence

Although objectivity is merely a journalistic ideal and reporting is in fact interpretation and therefore biased to some degree, financial reporters can still strive to be objective when reporting on financial matters. Media independence is a crucial public communication value in any democracy and should be protected at all costs. This chapter will focus on advertorial copy, company surveys, as well as reporting on and the recommendation of shares by analysts to determine if and to which extent they have a negative impact on media independence and objectivity.

- Chapter 5 – Conflict of interest

The importance of an independent media has already been established. Conflict of interest is another factor which undermines media independence. This chapter will investigate scenarios which may cause conflict of interest and determine if and to which extent media independence is harmed.

- Conclusions and Recommendations

After the discussion of the above-mentioned ethical issues conclusions will be made as to the ethical behaviour of financial journalists in South Africa and recommendations will be made for the way forward.

Chapter 2: Accuracy in financial reporting

2.1 Background

"First, the media are the primary source of information in a democracy. Accurate and reliable information is the lifeblood of the democratic process. Perhaps the most obvious players in this information flow are journalists," says Louis A. Day in his work, *Ethics in Media Communications* (Day, 2000: 25).

The introduction to the code of ethics of the Press Ombudsman of South Africa is based on the public's "right to know" (Retief, 2002: 38). But what does this "right to know" imply? From an ethical point of view the "right to know" does not mean merely satisfying the public's curiosity, but rather to report on what the public "needs to know" (Day, 2000: 127), in other words, matters that are newsworthy and in the public's interest (Day, 2002: 127, 302).

But the principle, "the public's right to know", goes back to the teachings of the great moral philosophers like Aristotle, Plato, Lock, Voltaire and Rousseu, Jefferson and Madison, among others, who valued an institution that could help develop human knowledge (Altschull, 1990: 359).

When inaccurate reporting occurs it violates the public's right to know and deprives the public from vital information. "It prevents the public from making informed decisions on important matters such as investments, voting, shopping, etc." (Retief, 2002: 49). But inaccurate reporting also causes severe harm to the media's integrity and credibility. Retief continues, "There are no valid excuses for inaccurate reporting. No deadline, personal problems, or pressure of any kind will do as justification or serve as a valid excuse... Reporting accurately is non-negotiable, whatever the cost. [It] is not the best way of doing journalism – it is the only way" (Retief, 2002: 50).

The recent Skills Audit Report conducted by the South African National Editor's Forum drew the attention to a serious lack of accurate reporting skills in the South African media (Steyn & De Beer, 2002).

Other more "indirect" ways of inaccurate reporting occur when journalists use press releases without checking the facts, especially when deadlines are tight, as well as relying on analysts' research and opinions. Due to the complex nature of the financial world, and the fact that South African newsrooms are relatively young and inexperienced (Steyn & De Beer, 2002), financial journalism relies a great deal on external sources, of which public relations practitioners and corporate analysts are among the most important.

Public relations practitioners do play an important role in providing the media with essential business news. But the information provided by them is in the interest of the company they represent, and generally biased. All the facts are therefore not considered. Tight deadlines may tempt financial reporters to rely on press releases or so-called "handouts" from public relations practitioners without verifying the facts.

Furthermore, financial journalism relies heavily on reports and recommendations made by corporate analysts. These reports and recommendations are often biased and in many instances even inaccurate.

This chapter will investigate the negative impact press releases and analysts' reports may have on accuracy in reporting.

2.2 The impact of press releases on accurate reporting in financial journalism

Public relations sources can contribute to the news in a functional way by providing the media with basic news, tips on news stories, vital background information and even "hard news" (Dennis & Merrill, 1991: 195-6). However, the fact remains that in most cases, these sources portray news in a distorted way, mainly serving the interests of their specific clients (Dennis & Merrill, 1991: 195).

In Don Milner's book, *Success in Advertising and Promotion*, he describes how to "monitor" the media and states the following: "Just as the media can be monitored for negative comments so also can it be monitored for positive comments." He adds that, although the independence of the media is "an uncontrollable element", that does not mean that the media cannot be influenced in the client's favour" (Milner, 1995: 195).

The media is often unable to verify information in press releases and reports by public relations practitioners due to insufficient availability of information or even more so, laziness. These reports appear in the media as "objective facts" (Dennis & Merrill, 1995: 195), but they are in actual fact distorted and the reporting is therefore inaccurate. Journalists' first responsibility is towards the public who should be able to trust the accuracy of the information reported.

2.2.1 The SANEF Skills Audit

The South African National Editor's Forum's (SANEF) Skills Audit was recently conducted to address the quality and standard of South African journalism. The research was done to analyse reporting, writing and accuracy skills among journalists. The population of the research design was based on the major electronic and print media. Editors, news editors and reporters with two to five years experience were taken into account. The sample comprised at least five reporter respondents and five stories at each site (Steyn & De Beer, 2002).

The skills audit highlighted reporters' inadequacy to report properly on news events. With regard to factual correctness, 19% of reporters used in the research sample were below average. Lack of language skills, with specific reference to grammatical errors, spelling and typing mistakes and clear sentences were also a big concern. Furthermore, 10 to 34% handled deadline pressures inadequately and submitted their stories despite possible errors (Steyn & De Beer, 2002).

SANEF's report drew the attention to another area of concern, namely the so-called juniorisation of newsrooms. Mathatha Tsedu, Chairperson of SANEF remarked, "One of the biggest problems facing the (media) industry is the juniorisation of the journalistic skills base. This comes at a time when the South African story is becoming more and more complicated" (Steyn & De Beer, 2002).

The Skills Audit proves that the South African media is not adequately equipped to deal with complex matters, of which financial news is probably one of the most complex areas.

2.2.2 The Enron phenomenon

With the revelations of corporate offences and accounting scandals by United States corporate giants, and in this instance specifically Enron in 2001 and 2002, there has been much talk about "reforms to the regulation of auditing and the setting of accounting standards." (*Sunday Times Business Times*, June 30 2002: 2). But the media's negligence in exposing these debacles in their early stage has not come under much scrutiny.

Scott Sherman, contributing editor of the *Columbia Journalism Review* (March-April 2002) wrote an insightful article, "Gimme an 'E,'" which uncovers the Enron story. It begins with the following statement: "The man who first laid Enron bare was not a journalist, [but] a hedge-fund manager named James Chanos...It's a scandal with numerous culprits and accomplices...One could add an additional culprit to the list:

the Fourth Estate." (Sherman: 2002). According to Sherman a business publication, *Financial Times*, blamed "gurus, analysts and the media" for not doing a proper investigation into Enron's accounting practices followed by *Business Week* editor Stephen Shephard who remarked that Enron "was not the press's finest hour" (Sherman: 2002).

In the mid to late 1990s the American business press overtly praised Enron as an innovative company, which, as Dow Jones News Service reporter Gaston F. Ceron said, "hold(s) the promise of skyrocketing returns" (as cited in Sherman: 2002). Although some publications were somewhat more sceptical about Enron, specifically *Business Week's* coverage of the company in the 1990s and even more so, *The Economist*, these publications never really went to the trouble to conduct a thorough investigation on Enron's financial situation.

Although Sherman's article does not pertinently blame public relations and press releases for the media's hesitation to unravel the misdeeds of Enron, he described the print media's coverage of Enron's top executives as "pure hagiography". Public relations practitioners have a strong influence on press coverage and portrayals in the media, and in many instances, manipulate journalists who choose to jump on the bandwagon and fail to check the facts. According to Jonathan Weil, a journalist at The Wall Street Journal (as cited in Sherman: 2002), the quality of Enron's earnings, the company's suspicious accounting practice and profits that depended on "assumptions and estimates about future market factors" (Sherman: 2002) were obvious danger signals that Enron was not as lucrative as what it had appeared to be. Thus obvious danger signals have been frankly ignored, which, in the end, was nothing but blatant inaccurate reporting. Sherman states the question, "What can the press learn from this affair?" The answer is simply that business reporters should be more wary of partial sources and include the opinions of "consumer advocates, mavericks, and independent-minded employees" (Sherman: 2002).

2.2.3 LeisureNet – a South African Enron

Francois Williams, a journalist at *Die Burger*, acknowledged that the collapse of LeisureNet, the former holding company of The Health and Racquet Club chain of gyms in South Africa, could have been exposed earlier had the media been more alert (personal communication: 29 July 2002).

In a letter to *Business Day*, Anthony Eedes, former senior regional GM of the Health and Racquet Club Group wrote, "I resigned in September '96 [and] I am not surprised by the current state of affairs of LeisureNet. What I fail to understand is why

LeisureNet's accounting methods were not questioned by investors, institutions and banks before?" (Eedes*:* 2000) With Eedes' reference to "institutions" one can assume that he implies the media.

On 15 September 2000, Marcia Klein reported in *Business Day* that LeisureNet's share price dropped considerably. According to LeisureNet, the review of "certain of its accounting policies to comply with international practice would result in a 'small' headline loss." (Klein*:* 2000). Six days later *Business Day* continued, "[LeisureNet's] more conservative accounting practices would see a small loss at the interim stage, although the operations were running smoothly" (Klein*,* 2000). In both instances LeisureNet was quoted directly. Approximately two years later, the commission of enquiry was still baffled as to why the LeisureNet group collapsed "only six months after all it's major shareholders seemed perfectly happy with its development strategy" (Mathews: 2002). In the second edition on the same day, *Business Day* reported that almost R1bn was omitted from LeisureNet's audited financial statements.

Why were the South African media not more vigilant in picking up on these discrepancies? According to Williams (personal communication: July 29, 2002) the details reflected in the annual reports of corporate companies differ considerably from the figures reflected on the Johannesburg Securities Exchange. What's more, tight deadlines and journalists' lack of interpretation skills with regard to corporate companies' annual figures, do not help much to unravel accounting scandals at LeisureNet and the like.

A story by Jackie Cameron, headlined, "Creative accounting details unfold at hearing", a former LeisureNet Group non-executive chairman, Joe Pamensky, disclosed that he was "aware of important information kept out of financial reports to shareholders before the group collapsed (Cameron: 2002).

Furthermore, several financial publications revealed that dubious accounting practices were the reason for LeisureNet's collapse in October 2000.

There is not sufficient proof that public relations and press releases were direct causes of inaccurate reporting with regard to LeisureNet. Although thorough investigative journalism may have revealed the LeisureNet irregularities, it would be unfair to expect from financial journalists to have uncovered the debacle. LeisureNet has successfully deceived its own shareholders as the management was aware that "the company was insolvent two months before liquidation...Its insolvent position was discussed at an executive meeting on August 11..." two months before its shares were officially suspended (Mathews: 2001).

John L. Hulteng (Hulteng, 1976: 149) states that a great deal of news items in American newspapers can be traced back to some kind of press release. Financial journalists should therefore be more alert and willing to "work the copy over" to be able to provide their readers with unbiased, unadulterated news and information which is above all accurate (Hulteng, 1976:149).

A local freelance journalist, who wishes to remain anonymous, and who has been involved in business writing for a number of years, argues that financial reporting in South Africa is in many instances 'mirrors' of press releases. But can the same be said for analysts' opinions and recommendations?

2.3 The influence of analysts' reports and recommendations on accuracy in financial reporting

It is common knowledge that financial publications rely heavily on the views and recommendations of corporate analysts. "Analysts are quoted daily in newspapers and their views form the core of decisions made by fund managers and private investors on whether to buy a company's stock," writes David Robertson and Nick Hasell in *Times Online* (August 8, 2002). Analysts are specialists in specific business sectors and provide valuable input into complex financial matters.

The recent shenanigans, like Enron, and locally, LeisureNet, forced authorities across the globe to review accounting standards. However, the quality of research done by analysts has also recently come under scrutiny.

In 1997 *Sunday Times Business Times* published a report on LeisureNet, headlined, "Closer look at LeisureNet exposes more than a little muscle". Initially the author of the article, presumably an analyst, was quite sceptical about the viability of LeisureNet, "My reservations were that it [LeisureNet] appeared to lack focus...the debtors' book looked outrageously high and I wondered if LeisureNet had the depth of management" (*Sunday Times Business Times*, January 19, 1997). "But when such weighty institution," he ads, "have filled their emerging boots with LeisureNet there has to be something to it." The author concludes, "So, to buy or not to buy at 405c? Its cheap on a two-year view and can be bought" (*Sunday Times Business Times*, January 19, 1997).

Stafford Thomas also listed LeisureNet as one of the Top 1999 companies. His article reads as follows: "Over the past years only one share, LeisureNet, has appreciated in price...Significantly, these operations delivered a R12,5m operating profit in the year to December 1998. This is a credit to management's expertise..."(http://secure.financialmail.co.za/topco19999/xhotel.htm). As previously mentioned, the same management was aware of its insolvency two months prior to liquidation.

Robertson and Hasell continue, "But did a single analyst uncover the inaccuracies at Enron, or WorldCom, or any of the corporations that have been lying to investors about their earnings? The simple answer is 'no'. In fact, some were still recommending that clients buy stock even as the regulators were closing in." (Times Online: August 8, 2002). In South Africa we can add LeisureNet to the list.

According to Brendan Boyle, Bureau Chief of Reuters South Africa, the problem is that there is no such thing as a "neutral" analyst (personal communication: 30 July 2002). Analysts "talk their books" and it is therefore imperative for the media to have "built-in protections" to ensure accurate reporting and not to rely on the views of one single analyst.

In view of the two incidences mentioned, it is evident that analysts do contribute to inaccurate reporting. But it would require some serious thinking to find a practical solution for this problem, as the relatively young and inexperienced South African media has no choice but to make use of analysts' reports and recommendations. Besides the fact that corporate analysts are experts in their field, they also have more time to conduct proper research before writing about a specific business sector, says Francois Williams (personal communication: 29 July 2002).

Analysts' reports can exempt financial journalists from the burden of conflict of interests, especially where reporting on stocks is concerned. However, this is a double-edged sword and poses a serious threat for objectivity and media independence. The question can be asked, "To which extent does the media forfeit objectivity and independence due to the reliance on analysts?"

This matter will be further discussed in Chapter 4.

Chapter 3: Truth, deception and fairness

3.1 Background

At the outset of this chapter it must be made clear that truth and deception, as well as fairness will not be discussed in terms of truthful, accurate vs. deceitful reporting and news gathering. The point of departure is rather the "Doctrine of the Right to Know", as discussed in Altschull. This principle is underpinned by a democratic system in which a well-informed society can make educated decisions (Altschull, 1990: 248). Based on confidence in "the common man" this doctrine argues that "knowledge is power" and that "all free men and women are entitled access to knowledge" (Altschull, 1990: 249).

The following discussion will therefore investigate how deception (which is the opposite of truth) can jeopardise the public's right to know.

3.1.1 Truth vs. deception

"As the oldest, most highly regarded ethical principle of humankind, truth has been a fundamental journalistic value since Gütenberg developed the printing press," says Retief (Retief, 2002: 67). Truth is a basic journalistic principle and important to journalists for the following reasons:

- It upholds integrity and credibility in the media.
- It aids the public in making informed decisions on important matters.
- It establishes trust between the media and public.

As Retief puts it, "The *search for the truth* remains a cornerstone of excellent journalism." But hand in hand with truth goes the principle of social responsibility. After the Second World War, the Hutchins Commission was called into being in the United States of America to conduct an investigation into the nature of news reports (Altschull, 1990: 283). The Commission argued that journalists were "required not only to present the facts, not only the truth behind the facts, but to be accountable to society if he or she fails to do so" (Altschull, 1990: 284).

The opposite of truth in this discussion is not *lying* but *deception*. Deception, according to sources on media ethics, usually pertains to the process of news gathering, for example when journalists obtain information through false identities and hidden cameras. Deception also focuses on misleading the public through photojournalism as well as writing news. A journalist can for example withhold important information or consciously give the wrong story. This, however, occurs seldom if ever (Retief, 2002: 69). For the purposes of this chapter deception will be discussed in view of word choice and the use of financial jargon which may mislead the reader.

Retief says, "Reporting should *promote understanding*. A story should...afford the average reader at least an understanding of the facts and the context of the facts" (Retief, 2002: 67). The philosopher Jean-Jacques Rosseau was a great advocate for "plain speech" as a vehicle of information. "...Rosseau insisted on the rejection of lofty and obscure language above the intellectual level of the people..." (Altschull, 1990: 89) This is particularly true for South Africa as there is still a considerable amount of South Africans who are illiterate and, even more so, unfamiliar with financial terminology. South African financial journalists therefore have a special responsibility to "promote understanding" (Retief, 2002: 67) to the average South African. Financial publications cater, to a great extent, only for businessmen, investors and people at management level. Complex financial terms are often not demystified and as a result financial news is exclusive and elitist.

3.1.2 Fairness

"Fairness first and foremost has to do with proper balance and context" (Retief, 2002: 83). Fairness in journalism comprises the following aspects:

- Word choice - the same word can have different meanings and reporting should therefore "justly reflect the reality you are reporting on" (Retief, 2002: 84).
- Facts must be portrayed in proper context.
- The Rashomon effect, namely that people interpret the same situation differently, must also be kept in mind.
- Fairness implies balance (Retief, 2002: 85).

The social responsibility principle is equally important in the discussion of fairness as an ethical cornerstone. According to the Hutchins Commission the justification of journalism lay in its responsibility toward society (Altschull, 1991: 359). The ethical journalist [works] in the service of mankind [and] rejects self-interest." For this discussion fairness and social responsibility will be reviewed in terms of balanced and unbiased reporting.

This chapter will mainly look into the use of financial jargon in view of the ethical principles, truth vs. deception, as well as fairness, to establish whether financial terms exclude and mislead the reader.

3.2 The possible effect of jargon to keep financial news exclusive and mislead the reader

In December 1998 an article appeared in *The Economist* (US) which criticised financial journalists for abusing jargon. "Economic writers love to use and abuse jargon; and, to give their dry discipline more appeal, they resort to tired but lurid metaphors. This can confuse the reader; at worst, it misleads" (*The Economist*, December 5, 1998).

Complex at its best, the financial world is an unfamiliar terrain for the average reader. Knowledge is power, but how can people be empowered if business journalists abuse financial terms?

A study conducted in 1999 in the United Kingdom revealed that six out of 10 Britons are confused by "the complex terminology commonly used by the financial services industry" (*BBC News*: 7 July 1999). The study also showed that as many as 65% of the British population does not own shares in any company as a result of financial jargon (*BBC News*: 7 July 1999).

With a far less sophisticated media public in South Africa one can assume that the degree of confusion regarding financial terms will be much higher. Financial publications in South Africa, especially magazines like *Finance Week* and *Financial Mail*, as well as the daily newspaper *Business Day*, pitch at high profile investors and people at upper management level leaving the average reader behind. Francois Williams (personal communication: 29 July 2002) agreed that financial terms used in *Die Burger* are by and large not accessible for the average reader, but continued that attempts are being made to explain jargon, for example in the column *Jou Geldsake*. According to him the Independent Newspaper Group supplement *Business Report*, is more considerate towards its readers when it comes to explaining financial jargon.

Brendan Boyle, Bureau Chief of Reuters, is also of the opinion that financial journalists in general "protect the elite status of people with money" by not explaining financial jargon adequately. He agrees that *Business Report* makes a bigger attempt to "decode" financial terms than its other South African counterparts. He gave special recognition to Bruce Cameron, who "empowers" readers through his columns in

Personal Finance, a supplement that appears in the Saturday edition of Independent Newspapers (personal communication: 30 July 2002).

In an article, "Understanding the jargon," Rosalind Stone explains the most frequently used financial terms which appear in business publications (Stone, 2000). But the use (and abuse) of jargon also includes excessive jabber. *The Economist* remarks, "As any self-respecting financial journalist knows, stockmarkets never simply decline or fall, they shudder, swoon, haemorrhage, crash, plunge or sink in a river of blood." Furthermore, the author says that phrases like *surge*, *soar*, *volatile*, *stabilise*, *rally* and *bounce* are all "flamboyant, financial jargon [which] is a stock of glib phrases that provide ready-made explanations for any given turn of events". (*The Economist*, December 5, 1998).

After scrutinising a number of business publications, it is evident that jargon as well as these so-called "glib phrases" feature in South African finance publications on a frequent basis. The following examples have been selected from various business publications. They will attempt to portray the use of financial jargon, the use of affected language (also known a glib phrases) and instances where financial matters are demystified to the average reader.

The excerpt taken from *Financial Mail* serves as an example how financial news often alienates the average reader with jargon. The article, "Steam rises off shortage" reads as follows: "Inflationary pressures heralded by the rand's 40% slump in value brought an abrupt end to the bond market's bull run and, with impetus from two 100 basis points hikes in the repo rate, the steepest rise in rates in four years." (*Financial Mail*, April 19, 2002: 40) Although terms like *bull run*, *hikes* and *repo rate* are recognised terms in the financial industry and familiar among financially informed readers business publications should endeavour to explain terms as when they appear for the first time in the article. Alternatively they should be defined in footnotes or in a glossary.

In *Finance Week's* column, "Creating Wealth," the terms used in the article, "FirstRand and Stanbic enter new arena," are equally confusing. "Purely on p:e multiples, FirstRand is currently the favourite...But this market has been hardly scintillating...A premium or discount against embedded value is probably the best method of determining an insurer's rating. The embedded value consists of the insurer's capital (net asset value) plus the value of in-force business" *(Finance Week*, November 16, 2001: 14). The terms, *p:e ratios*, *scintillating*, *embedded value* and *in-force business* deserve explanation. *P:e ratios* is defined as Share Price/Earnings per Share, which is, according to a glossary which explains jargon for global investors, "the best yardstick for measuring valuation for shares..." (Financial jargon explained for global investors).

With regard to the excessive use of metaphors and affected language an extract from a *Business Day* article illustrates this argument: "SA's largest technology company, Dimension Data (Didata), is still wallowing at its lowest value in years, with its woes compounded by a high-risk rating doled out by Merrill Lynch" (Business Day, August 16, 2002: 17). Words like "wallowing", "woes" and the phrase "doled out" could have been put simpler, for example: "SA's largest technology company, Dimension Data (Didata) is still performing poorly at its lowest value in years. Furthermore, Merrill Lynch gave Didata a high-risk rating which contributes to its poor performance."

An article, "It's not only the bad shares that get the blues," appeared in *The Sunday Times'* business supplement *Business Times* on 30 September, 2001 and also contains ready-made phrases, which can be misleading. Phrases include: "*rally* in local shares", "companies were *thumped*", "significant *rallies*", "liquid stocks...will also *bounce* the most" and "cyclical stocks as the global yield curves steepen further" (*Sunday Times Business Times*, September 30, 2001: 1). According to *The Economist* (December 5, 1998) financial journalists refer to share prices as 'volatile' "only when they are falling." Furthermore, when they start rising "they have 'stabilised', 'rallied', 'bounced' or sprinted to safety – implying that such rises reflect economic fundamentals".

Although financial jargon is more often than not a mystery to people outside the business world, there are some examples where financial journalists attempt to demystify financial news. In *Finance Week*, Barry Sergeant discussed the factors which led to the "meltdown" of the Rand. Although Sergeant sporadically uses so-called unnecessary metaphors like "[the rand's] meltdown" (as early as in the heading of the article), "the rand's precipitous plunge" and "the rand's latest dive", he does give an explanatory summary of what actually led to the so-called "meltdown". Says Sergeant, "In essence, the product sold shares for dollars one day only to buy back the same shares the next day for rand" (*Finance Week*, March 8, 2002: 10).

Bruce Cameron's role in empowering the general reader in terms of financial information has already been mentioned. In *Personal Finance* (August 3, 2002: 4) he urges life assurance companies to simplify their cost structures. Cameron says, "The costs [of investments] are conveyed to investors in a manner that is complex and confusing...and if all you have to go on is the marketing material, not even a rocket scientist would be able to tell you what they are" (The Saturday Argus Personal Finance, August 3, 2002: 4). As mentioned earlier, both Brendan Boyle, Bureau Chief of Reuters and Die Burger journalist Francois Williams commended Cameron on his demystifying financial matters. The following example from *Personal Finance Magazine* will illustrate this argument.

In his column "Investment strategies", Cameron explains unit trust investments using understandable terms: "The problem with unit trust investment is that most people, including many investment advisers, start with the wrong move...Rather than trying to identify the top performer of the future, you should start by narrowing down the choices in a logical way" (*Personal Finance Magazine*, January 2000: 26). The article names two methods of "choosing funds" and compares choices to a chess game, "Imagine playing chess without any knowledge of the game – this is how many people enter the unit trust game. They do not know where to start, let alone where they want to go." Cameron continues, "As the public's knowledge of investment increases, unit trust will be the easiest investment product for ordinary people to access directly, without having to make use of a middle man" (*Personal Finance Magazine*, January 2000: 26-27).

This discussion did not attempt to prove that the content of financial news is untruthful, but rather focused on how deceptive the messages can be if the average reader cannot grasp the meaning thereof.

To be fair it cannot be expected from business reporters to demystify every single financial phrase. Without doubt readers who have a keen interest in business and economics should make an effort to familiarise themselves with financial jargon. However, South African financial journalists should bear in mind that they write for a media public who is still relatively uneducated and should focus on word choice and less complex terminology.

3.3 Fairness, balance and context in financial journalism

Says Retief, "Fairness, at least in the media ethical sense of the word, boils down to proper balance and the right context" (Retief, 2002: 86). For the purposes of this discussion the use of financial jargon in business news will be measured against the fairness principle to establish if the above poses a threat for reporting in terms of "proper balance" and "the right context".

Having looked at examples of financial jargon in finance publications, one cannot argue that the mere use of such terminology jeopardises fair reporting. Financial jargon, in fact, belongs to business news. An aspect, which deserves attention, though, is the fact that the media has gradually overwhelmed the public with "arcane financial data".

In an article in the *Columbia Journalism Review* Robert H Franks (November 2000) argues, "A decade ago, reporters might have told us that interest rates had risen a quarter of a point...But now...we are bombarded with details once considered too technical even for seasoned financial industry professionals." Veteran reporter John Quirt (as cited in *Columbia Journalism Review*, November-December 1993) substantiates this argument that "more business and economic coverage does not necessarily mean better coverage". He adds, "Unfortunately, in the case of The Press and the World of Money, more adds up to less" (Franks, 2000).

Due to the enormity of the market, it is not always possible to provide adequate reasons for the rise and fall of shares. However, according to Reuters business correspondent Greg Crawford (as cited in Nelson, 1994) "sufficient scrutiny will usually yield the right reason". He continues, "More often than not there are days you can pinpoint the factors" (Nelson, 1994).

Financial journalists only occasionally provide adequate reasons for market movements, as the following extracts from *Finance Week Ratings and Rankings* (November 2001: 28) show: "consider the top company over one year, private equity fund Aquila. Its earnings per share grew by 3 750%. This is largely as a result of several buy-back transactions..." In this instance the factors for share growth were named. Further on, in the same article, only vague reasons were given for market movements. "The large earnings growth [of the other top performers] is probably the result of unique or sporadic events which are unlikely to be repeated." No further explanation accompanies the so-called "unique or sporadic events". The article continues, "The company in third position over one year, with 1 100% earnings growth, DNA Supply Chain Investments, did not perform particularly well...growth of a mere 1,76% was recorded." Nowhere are the reasons for the lack of performance stated.

In view of the above, financial journalists do not always comply with fairness as a journalistic value. In terms of balanced and contextual reporting, "arcane financial data" (Frank, 2000) without adequate explanation lead to unbalanced reporting. Rick Gladstone, deputy business editor of Associated Press in New York says, "It may have nothing to do with the news or with anything. But we are obliged to say what might've been at work. When I read stories that don't offer explanations, I get very frustrated" (Belejack, 1993).

Chapter 4: Objectivity and media independence

4.1 Background

"Make no mistake: objectivity is an indispensable journalistic ideal. The reality, however, is that all people are subjective, partial and biased – and journalists are no exception," says Retief in his chapter on objectivity. It would be naïve to believe that journalists are neutral, objective and impartial (Retief, 2000: 99). News reporting is by nature interpretation and therefore subjective. Retief continues, "What is important to one journalist may be of less importance to another...."

From the above it is evident that news reporting is by implication a process of "selection", which means that journalists decide which aspects are more important than other aspects. As Retief puts it, "It is immediately clear that nobody can be objective...Nobody can interpret objectively. In fact, those words are contradictory to another." (Retief, 2000: 1990)

The BBC refers to the term "due impartiality" and acknowledges the fact that "*absolute impartiality*" does not exist. According to the *BBC Producer's Guidelines* the term "due impartiality" can be defined as "'adequate or appropriate to the nature of the subject'" (Retief, 2002: 102). According to Retief this is a "very realistic approach". The continues, "It is better to realize your own subjectivity than foolishly to pretend otherwise."

However, this does not exempt journalists from the responsibility to "report truthfully, comprehensively, and intelligently". As Retief puts it, "But now more than ever, [journalists] must make a fundamental commitment to *strive to be objective*" (Retief, 2002: 102).

A democratic society is based on freedom of the individual. But to realise this freedom people must have access to information and the freedom to communicate. Freedom is, therefore, a "public communication value" (Oosthuizen, 2002: 50-51). This public communication value includes the "independent status" (Oosthuizen, 2000: 51) of the media. Oosthuizen states, "The media in a democracy must be able to publish information that is free of undue pressure...to ensure its independence. Independence is a precondition for the supply of reliable and original content...and for the media to take a critical stance" (Oosthuizen, 2002: 145). But, too often, the media restricts itself by self-regulation and forfeits its independence by its actions.

The nature of financial reporting compels journalists to write about shares, economic affairs and company news. How does reporting on these matters influence media independence and objectivity?

As mentioned previously, journalists often lack knowledge and expertise in the financial field, and therefore rely on analysts to provide information. The fact that analysts' reports in many instances contribute to inaccurate reporting has already been discussed in Chapter 2. But analysts' reports and recommendations may also have severe implications for media independence. Does the fact that journalists rely on analysts to write about shares and the securities market have a negative impact on media independence and objectivity?

Pressure for profit is another factor that may put media independence at risk. Editors are now more than ever forced to rely on advertisements and contribute to the so-called bottom line to satisfy their stockholders and to keep their publications financially viable. Advertorial copy and company surveys in particular may have serious implications for media independence. To which extent do the above endanger media independence and objectivity?

It is evident that the above issues may endanger media independence and objectivity. This chapter will look into three factors, which may be detrimental to objectivity and media independence, namely: writing about shares, reliance on the recommendations of analysts, and finally, advertorials.

4.2 Reporting on shares – a possible threat to media independence and objectivity

The business sections of newspapers comprise, among other things, reports on economic affairs, company news as well as information on shares and the securities market. Reporting on these issues may have several ethical pitfalls. Although conflicts of interest will be discussed in Chapter 5, these two issues cannot be separated from each other, as and will be discussed in conjunction with each other. Conflicts of interest arises where there is a "clash between journalists' professional loyalties and outside interests that undermines the credibility [and] constitutes a situation in which the media can no longer act independently" (Retief, 2002: 133). For the purposes of this chapter emphasis will be placed on the implications of reporting on media independence and objectivity, while conflict of interest will be discussed in Chapter 5.

In an article, "Nothing to tout about," William Powers remarks, "[The news media] never forced an investor to buy a single share of stock. What we did was to give a platform to a bunch of touts...The touts touted and we nodded and scribbled." (Powers: 2001]) Powers continues, " For almost a decade, journalists did something quite out of character: We accentuated the positive...Money, SmartMoney, and other financial magazines were obsessed with stocks and funds that should be buying right now." (*National Journal*, April 14, 2001) Until the collapse of corporate giants like Enron and WorldCom in 2002, reporting of stocks in the US were rather one-sided and this distorted information was conveyed to a public who trusted the content.

Jane Bryant Quinn wrote an article for the *Columbia Journalism Review*, called, "When business writing becomes soft porn". She commences, "Many business journalists, I fear, have left home and joined a cult." Quinn continues, "Journalists have a special responsibility not to accept the values of the wealthy or their financial managers...[they] should question the values of financial managers, not advocate them" (Quinn: 1998). Furthermore Quinn remarks that the US personal finance press is seen as a "questioning, investigative source, which is only sometimes true" and that "not enough reporting chooses to lean against the wind" (Quinn: 1998)

Quinn's remarks especially became apparent in the late 1990's when too many journalists, as Sherman puts it "rushed to embrace Enron" (Sherman 2002). Sherman says, "To excavate back issues of magazines like Forbes, Fortune, Worth, Business 2.0, and Red Herring is to enter a parallel universe of cheerleading and obsequiousness, a universe where applause obliterated skepticism" (Sherman 2002).

But what is the situation in South Africa? With an unstable economy and business climate the South African press does not go into raptures over stocks and companies like their American counterparts. Reporting is much more sober, like Shaun Harris's article, "Stock picking," where he writes, "If any salutary lessons can be drawn from last year, it's just how unexpected economic events can turn out to be – and how horribly wrong investment forecasts can go" (Harris: 2002). Having looked at magazines such as *Finance Week*, *Financial Mail*, *SmartInvestor* and *Personal Finance Magazine*, as well as newspapers like *Business Times* and the supplements *Business Report* and *Business Times*, there is no substantiation that journalists' reporting on stock poses dangers for objectivity and media independence. The South African media takes a more objective and rather cautious stance when it comes to reporting on stocks. Reporting is almost remote and there is no clear indication of biased reporting.

However, there is another factor which may have serious ramifications for media independence: the opinions of analysts.

4.3 The impact of analysts' reports and recommendations of shares on objectivity and media independence

From previous discussions it has already been evident that journalists have little choice but to rely on the recommendations of analysts due to the technical nature of the finance world and securities market as well as time constraints, which make thorough research difficult. The fact that analysts' opinions may have a negative influence on accuracy in reporting has already been discussed in Chapter 2. But how do these recommendations influence objectivity and media independence?

James Cramer, president of Cramer and Company and Bottom Line columnist for *New York magazine* seems to think that American journalists were unfair to a highly successful mutual fund manager, Jeff Vinik. He starts off by saying, "Look out, the business-journalist police are at it again. This time they have said their sights on...Jeff Vinik, the wildly successful manager of the country's largest mutual fund pool, the Fidelity Magellan Fund." Vinik implied in an interview that he preferred Micron stock, while he was actually selling it. According to Cramer journalists were unfair to Vinik who was entitled to change his mind as the situation changed (Cramer: 1996).

The securities market is an extremely grey area where circumstances change at on a day-to-day basis. Financial publications are not in a position where they have control over such reporting. The South African publication *SmartInvestor* states in its *Smart Stocks*-column, "PSG Online, Cahn Shapiro and Prism Equities recommend stocks in SmartInvestor every month. We keep a track record of all recommendations. If the stockbrokers believe that share should be sold, readers will be advised accordingly. However, because we are a monthly publication, it may occur that a share price will fall to the point where it should be sold but we are unable to advise this" (SmartInvestor, August 2000: 24).

The fact that financial publications publish analysts' opinions does have an impact on media independence. According to Williams (personal communication: 29 July 2002) *Die Burger* publishes analysts' recommendations in the column, "Aandeel van die week". The name of the analyst is mentioned at the bottom of the story and *Die Burger* receives payment for publication from the analyst's brokerage firm. Brendan

Boyle says that there is no such thing as a "neutral analyst" (personal communication: 30 July 2002). However, in the British *Sunday Times*, analyst Paul Kavanagh, who writes favourably about Porvair, a materials technology company, states his independence at the bottom of the article, "Paul Kavanagh is partner in charge of research at Killik & Co...He does not have holdings in the above stocks and has undertaken not to discuss his recommendations with any staff...before publication" (Sunday Times [UK], January 8, 2001).

The South African finance publications are more vague when it comes to publishing analysts' opinions. In *Sunday Times'* business supplement, *Business Times*, the heading and sub-heading, respectively, of a report on share tips read as follows, "Trade Secrets: We tell you what the brokers are saying." (Sunday Times Business Times, August 18, 2002). Nowhere does it states whether these "brokers" are neutral. Furthermore, the independence of analysts is neither conveyed in *Finance Week Ratings and Rankings* column "Fund Managers' Choice". The article merely concluded "The list of most popular shares in unit trusts merely serves as yet another aid for consideration in decision-making by the well-informed investor" (*Finance Week Ratings and Rankings*, November 2001: 69).

Toward the beginning of 2002 the role of analysts have come under scrutiny due to the plummeting securities market. According to David Robertson and Nick Hasell (Times Online: August 8, 2002) there was no need to question the opinions of analysts with the bull market, "because they were always right: buy and you made money. But the situation is now different." But there is a growing tendency of analysts to report favourably on the company which also pay their consultancy fees (Times Online, August 8, 2002).

Giant investment bank and brokerage firm Merrill Lynch was fined $100 million by the US State attorney general in May 2002 (Times Online, August 8, 2002) after recommending various companies' shares even after their stocks plummeted (Financial Mail, April 26 2002: 62). Dan Gillmore, who writes for *California's San Jose Mercury News*, reports that these analysts revealed total lack of independence. "The sheer cynicism of these people is astounding. They're talking about companies that probably never should have been taken public in the first place, calling the stocks vulgar names even as they continue to tell investors to buy the shares" (Gillmor: 2002).

As said previously in Chapter 2, analysts' contributions to financial reporting is indispensable. Cramer agrees and says the following in his article on Jeff Vinik: "if the press continues to lynch managers who change their minds or who speak too highly of stocks, the only kind of investment advice we will receive from professionals in print is advice so well-vetted and innocuous as to be useless...we will be stuck reading the advice of journalists themselves, who have taken an oath never to buy or sell stocks and write about them. If the choice is between taking the stock advice from journalists who can't own stocks and portfolio managers who own them but might sell them if they jump up, I'll take the portfolio's manager's advice any day of the week" (Cramer: 1996).

Yes, when it comes to picking stocks analysts do probably know best. But, what Cramer did not take into account, is that the media has a responsibility towards the public to supply reliable content and to act independently. Analysts, who serve their own interests, endanger this public communication value, as their views, which often lacks true independence, are published in magazines, newspapers and on the Internet. "In many ways, the personal finance press covers a world of predator and prey. We're supposed to stick up for the prey," says columnist Jane Bryant Quinn. She continues, "The world of right and wrong is much larger than the world of profit and loss" (Quinn: 1998).

4.4 The influence of advertorials and company surveys on media independence

One of the most ethically controversial issues in journalism is the gradual blending of advertisements and editorial content (Day, 2000: 27). This "Big Blur" as it was called in an article in *Newsweek* a few years ago (as cited in De Beer, 1998: 303) is in fact advertisements disguised as editorial copy (De Beer, 1998: 303) and has serious implications for media independence.

Advertorials mean relatively "easy money" for publications, especially in an era where the media relies heavily on advertisers as a source of income. Oosthuizen says, "Since the early 1980s, there has been a global tendency to follow a marketing approach in the newspaper business...[where] newspapers have primarily become vehicles between readers and advertisers." One of the most important ethical problems with advertorials is the fact that they are presented as editorial copy and can therefore "trick the undiscriminating reader into believing that it is normal editorial content and therefore more believable" (De Beer, 1998: 303). In a democratic society the media should serve the interests of its readers, presenting unbiased news that is free from any outside pressures.

In the *Columbia Journalism Review*, Joseph Coyle remarks that editors have always had to weigh up the demands of their profession (serve thy reader) and their company (serve thy owner, who is increasingly the stockholder)" (Coyle: 1998). Editors and journalists now have to play the role as marketers of their publications.

In the January 2000-edition of *Personal Finance Magazine* published a feature on the new Medical Scheme act, and the advertising department approached MediHelp Medical Scheme to buy advertising space. The fax read as follows, "We are taking this opportunity to alert you to our feature on the new Medical Scheme Act to appear in our January issue. This act as you know will substantially alter individuals financing of Healthcare. In fact, the legislation will present a whole new ball game for anyone who wants to buy medical scheme cover…I believe this will make a good advertising environment for your company and look forward to speaking to you" (Personal Finance Magazine, Fax addressed to Stefan du Plessis at MediHelp, November 18, 1999). A MediHelp advertisement, however, was never published, but a Fedsure Health advertisement appeared in the January 2000-edition instead. Although approaching advertisers is common practice, the question is how to do so without compromising editorial independence.

Another example of the marketing role of publications is an advertisement in Sunday Times Business Times in August 2002, which read, "Let the Business Times publish a corporate profile on your company. We are the most widely read business publication in country attracting over 1,4 million of the country's business readers" (Sunday Times Business Times, August 2002). But these so-called "corporate profiles" are also a grey area when it comes to distinguishing between editorial content and advertisements.

In May 2002, Business Times published a profile on SAA City Center. The heading and sub-heading, respectively, read as follows, "What's in a name? Success. Spin-off from the parent creates instant recognition in the marketplace" (Sunday Times Business Times, May 26, 2002: 19). The word choice in the feature (also called survey) is unconcealed promotional, for example, "The Company's products include some of the best airfares on all airlines, car rental, cruises, hotel accommodation around the world, and great value-for-money tour packages" (Sunday Times Business Times, May 26, 2002: 16).

Another article, which is reminiscent of advertorial copy, appeared in Business Times, where Drake International "provides" recruitment solutions to companies who may lose employees within the first year. The article, "Spot 'em before you hire 'em, " reads, "Drake International has taken the route of using precalled SPQ*GOLD to the SA market...such technology 'has the power to save businesses literally millions of dollars a year in lost sales by ensuring that you have the right people in the right jobs from the start'." An advertisement of Drake International appeared directly below the article (Sunday Times Business Times, August 18, 2002).

The problem with the "SAA City Center" and "Drake International" illustrations is that it can be assumed that the content have been paid for by advertisers but as Day puts it, "[they are] cloaked in the respectability of editorial content." Day continues, "In appearance, they resemble an informative feature article, but are in fact a vehicle for delivering an advertiser's message" (Day, 2000: 234).

Both Francois and Williams Brendan Boyle agreed (personal communication: 29 & 30 July respectively) that advertorials are a grey area in financial journalism. Williams says that, although advertorials have a different typeface and are often distinguished with a heading, they can still be deceptive as they often appear on the same page as other news. The differentiation between editorial and advertorial copy is therefore very subtle. According to Boyle advertorials are not "adequately identified" and nothing more than "subliminal advertising". He continues that "straight journalism" is unquestionably absent in advertorials (personal communication: 20 July 2002).

Although the pressure for profit compels journalists to maximise income for their publications, their economic interests should never outweigh the responsibility to provide the public with objective information which is free from any unwarranted pressure. Day remarks, "I noted the role that the market concept plays...and the apparent inevitability of this trend. And yet, [it] has a decidedly negative overtone, replete with examples of how the public interest has been subordinate to economic interests. "(Day, 2002: 235) In order to adequately inform the public, however, the media needs to remain financially viable, and can only do so in this day and age by relying on advertisements. The important and difficult issue, however, is to find the golden mean.

Chapter 5: Conflict of Interest

5.1 Background

"The professional ideology [of journalists] holds that if the media do not serve the public, there is no justification for their existence other than selfish or commercial ones," says Altschull (Altschull, 1990: 359). One of the basic ethical guidelines for journalists is to act independently (Black et al., 1995: 17). A journalist's first and foremost obligation is towards the people's right to know. The meaning of this "right to know" has been discussed earlier.

It is inevitable that conflict of interest will surface in the career of any journalist, sooner or later. But what exactly is conflict of interest? Conflict of interest arises when a journalist's professional loyalties and outside interests are at odds (Retief, 2002: 133). Conflict of interest jeopardise media independence. According to Day, conflict of interest is "one of the most ethical terrains for media practitioners" (Day, 2000: 193). Financial journalism is one of the most vulnerable sectors as a result of the early access business reporters have to information which bear financial value.

According to Bugeja, "temptation is situational, in other words, what might tempt one journalist...might not tempt another" (Bugeja, 1996: 161). Howard Buford (as cited in Bugeja, 2000: 161) argues that one has to contemplate ethics prior to temptation in order to resist it. "Unless you think about ethics ahead of time, when faced with pressure, you're just going to do whatever is most expedient."

The conflicts of interests confronting media practitioners fall into three categories: conflicting relationships, conflicting public participation and vested interests and hidden agendas (Day, 2002: 195). For the purposes of this assignment, conflicting relationships, with specific regard to gifts (also called freebies), and vested interests with reference to the securities market will be discussed, as they are specifically applicable to ethics in financial journalism.

5.2 Freebies as conflicts of interest and a threat to media independence

"Reporters serve a higher principle – the people's right and need to know", says Conrad J Fink (Fink, 2000: 184). When journalists are involved in conflicting relationships they serve two masters, and therefore endanger their independent status (Day, 2000: 195).

Freebies, no matter how discreet, can jeopardise a journalist's integrity and credibility in the long run. The Code of Ethics for the Society of American Business Editors and Writers Inc (as cited in Fink, 2000: 184) sets clear guidelines for conduct with regard to gifts: "Accept no gift, special treatment or any other thing of more than token value given in the source of activities. In addition, he or she will accept no out-of-town travel paid for by anyone other than his employer...Food and refreshments of ordinary value may be accepted during the normal course of business."

The Reuters Code of Conduct stipulates the following guidelines for their reporters under *Gifts and Entertainment*: "you should not accept from a customer or business associate gifts or entertainment on a scale which might be seen to create an unreasonable obligation to that person" (Glocer, 2002).

De Beer argues that many industries are likely to use freebies to make sure that their companies receive good publicity (De Beer, 1998: 306). It is common practice for corporate companies to take business reporters out to lunch to improve public relations. Francois Williams (personal communication: 29 July 2002) conveyed that former Saambou CE Johan Myburgh took journalists from *Die Burger* out to lunch shortly before Saambou's collapse toward the end of 2001. Other corporate companies like Sanlam and Old Mutual regularly arrange business lunches with reporters. Although many journalists may argue that free lunches may promote good relations, free lunches may, in the long run, taint journalists' objectivity. "Picking up the check at lunch...is a common practice business journalists face. The principle most applicable here involves independence. Anything journalists do that compromises their independence raises questions." (Thompson, 1991: 258)

The Reuters Code of Ethics states that journalists "may accept seasonal gifts of nominal value in line with local business practice" (Glocer, 2002). *Rustenburg Herald,* however, is more explicit in its stipulation of code of conduct regarding freebies, gifts, travel and apartments: "There is simply no such thing as a free meal" (Retief, 2002: 249).

But freebies often go beyond token value, as the following example in the United States will illustrate. An article in *Columbia Journalism Review*, "How Bloomberg pressurises editors," revealed how the Bloomberg organisation gives free computer terminals to editors and publishers, in exchange for publicity that appears to be free from favouritism (Kadlec, 1997). Dan Kadlec, *Wall Street* Columnist for *Time magazine*, says, "Freebies are such a sensitive subject that reporters at many newspapers and magazines must sign ethics statements promising not to accept any gift...But that hasn't stopped editors and publishers from taking as many 'Bloombergs' – computer terminals that spew loads of invaluable business and financial information – as they can get." Kadlec adds that at least 225 newsrooms all over the world have "at least one Bloomberg News terminal" (Kadlec, 1997).

However, the free terminals from Bloomberg come with a price. Journalists who make use of Bloomberg terminals are compelled to "cite Bloomberg News in their columns with a credit line at the top or bottom of the story or as a source in the text" (Kadlec, 1997). The majority of journalists interviewed by Kadlec for this article agreed that Bloomberg news terminals are "immensely valuable", but Kadlec, who referred to himself as a "Bloomberg junkie", was uncomfortable with the idea of using these freebies as he was aware of the fact that editors were compelled to give credit to Bloomberg as payment for the terminals. With the coverage Bloomberg received, it also gained considerable credibility. The freebies were therefore a clever approach. Several newspapers, which did not yield to Bloomberg's pressures, had their terminals unplugged. *Newsweek*, *The Financial Times of London* and *The Economist* had their terminals removed, because they had not given adequate attribution to Bloomberg (Columbia Journalism Review, September-October 1997).

The Bloomberg terminals are a classic example of how media independence is compromised by the receipt of freebies, regardless of the value. It is, therefore, advisable for journalists to pay their own way. The advice of Bujega is a valuable criterion for the ethical nature of a freebie, "determine whether the item, function, service, or tour in question is an attempt to program media for personal profit. If so, resist it. " (Bugeja, 1996: 172)

5.3 Conflicts of interests when journalists own shares and report on them

"Financial journalists are considered market insiders because they handle sensitive market-moving information." (Fink, 2000: 183).

Nowhere in the field of business journalism ethics is there an issue so notorious as insider trading. Insider trading occurs when a financial journalist trades in stocks he or she reports on, acts on privileged information received or reveals inside information to someone who may profit from it. Insider trading is strictly prohibited throughout the world.

As mentioned before, journalists serve a higher principle – the people's right and need to know. Conflicts of interests arise when journalists abuse their power and use their access to privileged information for personal gain and profit (Fink, 2000: 184).

The majority of news organisations have clear-cut ethical guidelines when it comes to reporting on stocks. According to the Code of Ethics for the Society of American Business Editors and Writers (as cited in Fink, 2000: 184) journalists should not be influenced by their own investments when reporting and may in some instances be required to disclose their investments to a superior. Furthermore, they should not use any inside information to trade in the securities market and make sure that such information is widely disseminated before buying or selling shares. Confidentiality of information must also be ensured and not be revealed to anyone who might benefit from it before it gets published (Fink, 2002: 185)

The Reuters Code of Conduct is also explicit regarding insider trading: "The fundamental principle is that if you are in possession of non-public information which could have an impact...on the price of Reuters Group PLC shares, or any other company's shares or securities, you must keep it strictly confidential and not deal or recommend other people to deal in those shares..." (Glocer, 2002).

There have been several incidences of insider trading among financial journalists in the past. In the 1980s, R Foster Winance, a *Wall Street Journal* columnist, (Kluge, 1991: 246) was convicted of fraud after he used inside information for personal profit and conveyed it to his friends and some brokers (Fink, 2000: 183). Winance proved that his column, "Heard on the Street" could move share prices and his lack of discretion harmed the *Wall Street Journal's* reputation and the credibility of business journalism in general. (Kluge, 1991: 246)

In 2000 British newspapers also came under scrutiny after it was made known that Piers Morgan, the editor of *The Daily Mirror* in Britain bought shares to value of R200 000 in a company called Viglen Technology. The very next day the publication encouraged readers to acquire shares in the same company. Morgan's defence was that it was mere coincidence. However, shortly thereafter it was also revealed that British tabloid, The Sun also commended shares that they had bought (Retief, 2002: 139).

In a *Financial Mail* article, "Punting your own shares", David Lascelles says, "the question of journalistic ethics has reared its ugly head again in the UK after a share-tipping scandal on the Daily Mirror." One can assume that Lascelles refers to Morgan's financial interests. Lascelles continues that the disclosure of financial interests by journalists "is a very murky area...even at the most highly regarded newspapers" (Lascelles, 2001). Proposals by the British government to force journalists to reveal their financial interests were unsuccessful. Says Lascelles, "This is a tricky area, because, in reality, there are few cases of abuse...But at the same time we should recognise that this puts journalists in a rather privileged position." (Lascelles, 2001).

In South Africa the Insider Trading Act, 135 of 1998 was put into effect on 17 January 1999. Together with the Act was the establishment of an Insider Trading Directorate (ITD) which conducts investigations of share transactions on the stock exchange. Not only does the ITD look into the transactions of a given company's directors or management, but also any other person who may have inside information and who have received information from an insider (Barrow, 2001). A number of South African companies, with specific reference to Datatec and Saambou, have come under scrutiny for insider trading.

The Sunday Times Business Times reported in May 2001 that Datatec directors had to settle a R1 million insider trading penalty. In April 2000 Jens Montanana, Datatec CE, indicated to an analyst that the company would not meet analysts' forecasts. The public was only told to lower expectations the next day. Information was therefore disseminated to selected shareholders only (Myers & Lehihi, 2001).

In Business Day's Market Watch, Greta Steyn remarks that Saambou directors sold their shares "two months ahead of a profit warning [but] may escape an insider trading investigation" (Steyn, 2001).

Although the neutrality of analysts is questionable with regard to insider trading, no incidences of insider trading among financial journalists in South Africa have been found. An article "Why no insiders have gone to jail" explains, "The JSE Securities Exchange says the fact that there have not been any criminal prosecutions for insider trading is not a failure of the system, but rather thumbs up for being able to speedily resolve matters and deter insiders. Its approach to insider trading is that of "zero tolerance" (Anderson, 2002).

Chapter 6: Conclusion and Recommendations

6.1 Overview

This assignment, media ethics in financial journalism, investigated the incidence of unethical conduct in financial journalism. Five ethical principles, which have relevance in the field of financial journalism, namely accuracy, truth, fairness, objectivity and media independence, formed the basis of the discussion. Each of these principles was illustrated with factors that compromise media ethics. These factors included the use of press releases and the influence of public relations, the use and abuse of financial jargon, reporting on shares and the securities market, the reliance on analysts' opinions and recommendations and the receipt of gifts as well as insider trading as conflict of interests. The occurrence of unethical conduct in financial journalism was discussed in broad outline by focusing on information available. Thereafter the situation in South Africa was discussed and illustrated with incidences and examples where possible.

The final report of Sanef's South African National Journalism Skills Audit highlighted the lack of life skills and awareness of ethical principles in South African journalism (Steyn & De Beer, May 2, 2002). In the past, there was a strong emphasis on media laws and regulations due to strict government control. The subject of media ethics was totally underplayed. The situation has changed considerably since South Africa has become a democracy. The South African media now applies self-regulation and freedom of expression is a constitutional right. However, media ethics and social responsibility have not received the attention they deserve in order to meet the demands and serve the interests of an ever-changing media public.

The conclusions and recommendations will focus on the five aspects discussed in the course of the assignment.

6.2 Accuracy in financial reporting

Sanef's Skills Audit Report revealed that journalists across the board lack accuracy skills when it comes to reporting (Steyn & De Beer, May 2, 2002). For the purposes of this chapter the direct relation of the use of press releases as well as analysts' reports to inaccurate reporting was investigated. There was not sufficient proof that the use of press releases leads to inaccurate reporting in financial journalism in

South Africa. However, the reliance on the recommendations of analysts contributes significantly to inaccurate reporting. Analysts depicted LeisureNet as a financially viable organisation, while accounting irregularities existed within the company which eventually led to its collapse some two years later.

Sanef's Skills Audit Report also indicated that deadline pressures impact negatively on inaccurate reporting. Journalists are not committed enough to produce accurate information within tight deadline pressures and the latter are used as an excuse for not conducting proper investigative journalism. Furthermore, the factual correctness of information received from sources is also not verified (Steyn & De Beer, 2002). Press releases and analysts' recommendations comprise a fair amount of business journalists' sources and one can assume that they also contribute to the absence of proper investigative journalism.

Advanced journalism training courses, which include business writing, the fundamentals of Economics as well as writing and interviewing skills may equip business journalists to deliver quality reporting despite tight deadline pressures. Knowledge of the financial world will also be conducive to investigative reporting and will reduce the need to rely on press releases and analysts' opinions.

6.3 Truth and Fairness

According to Sanef's Skills Audit South African journalists lack perspective in reporting fairly and communicating clear messages (Steyn & De Beer, 2002). Journalists neither accept personal accountability with regard to news content.

The above deficiencies were particularly evident during the investigation of the excessive use of financial jargon, arcane financial data and predictable metaphors in business reporting. Furthermore, financial journalists do not offer adequate explanations for fluctuations in shares on a consistent basis. South African financial reporting therefore remains elitist and does not serve the interests of the general public. Even more so, it alienates the man on the street. It is therefore evident that financial reporting is not fair and truthful, as it does not provide audiences with fundamental background information to gain insight into financial matters. Although there are a few benefactors in the business media, like Bruce Cameron and Tim Modise, who attempt to demystify the multifaceted financial world, they are by far outshone by those who prefer to keep financial news exclusive.

A vastly illiterate and rather unsophisticated media public in South Africa deserves to be empowered and has the right to accessible information – even complex financial news.

Sanef's Skills Audit showed that especially junior reporters lack general knowledge and knowledge of technical subjects (Steyn & De Beer, 2002). Due to the complexity of economics, junior reporters who receive advanced training in financial matters may be more equipped to provide the average reader with logical information by explaining, defining and simplifying terminology and general financial knowledge.

Although most financial publications are aimed at business people and those in upper management positions, the average reader will also be included and gradually educated. A suggestion would be that financial publications run columns which explain the most frequently used jargon as well as aspects of the securities market and economy. In this way financial news would be accessible to a broad spectrum of readers.

6.4 Objectivity and media independence

Having looked at the way in which South African journalists report on stocks, it became evident that reporting was generally factual. Nowhere in financial publications were shares praised, as was the case with Enron in the United States. The danger, however, is that business reporting appears to be aloof and, at times, even vague.

Analysts' reports on shares, however, are more dubious. Nowhere was the independent status of analysts acknowledged and this poses a threat for media independence. On the one hand the reliance on the opinions of analysts may exempt the media from insider trading allegations, but also jeopardise media independence on the other hand. In the end the media is accountable for information that is published and analysts who punt their own shares can cause irreparable harm to the media's integrity and credibility.

Advanced journalism programmes, which will enable business journalists to become experts in financial matters, may reduce the reliance on analysts. Editors of financial publications should also be more vigilant when seeking the opinions of analysts. As far as possible the interests of analysts should be acknowledged in the publication.

6.5 Conflict of interests

Conflict of interests for the purposes of this section constitutes freebies and insider trading. There are explicit codes of conduct with regard to the acceptance of freebies. The Reuters Code of Conduct states the following, "Equally you should not accept gifts or entertainment on a scale which might be seen to create an unreasonable obligation to that person...Reuters journalists must not accept any payment, gifts, service or benefit (in cash or in kind) offered by news sources or contacts" (Glocer, 2002).

The Star's Code of Conduct expresses the following with regard to freebies: "No gift, favour, or special treatment may be accepted if it puts a member of staff under any obligation to the donor" (Retief, 2002: 247).

The above mentioned codes of conduct acknowledge that the acceptance of freebies may create unreasonable obligations to news sources. However, the issue of freebies remains a grey area. Although *Reuters* and *The Star's* codes of conduct clearly state that journalists are not allowed to accept any freebies which are more than the nominal value, freebies, no matter how small, can taint a journalists' objectivity and undermine media independence.

An investigation into insider trading brought to light that no incidences of the latter have been reported in South African journalists for the past decade. Business reporters ascribe to the strict insider trading regulations set by the Johannesburg Securities Exchange.

Although existing codes of conduct have strict regulations regarding potential conflict of interests, greater emphasis should be placed on the importance of an independent and credible media whose purpose is not to get rich, but to serve a higher principle – the public's interest and the public's right to know.

As mentioned before, the subject of media ethics in South Africa has not received much attention in the past. The demographics and composition of the media audiences in South Africa has changed considerably in the past decade. Now that the media is free it should not neglect its social responsibility. In a diverse society there needs to be much stronger emphasis on media ethics if the media wants to fulfil its role as a socially responsible institution.

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