Purposeful innovation in finance – a TUC response to Helena Morrisey, DBE – by Paul Nowak & Kate Bell, TUC, January 2019.

Helena Morrisey's paper helpfully sets out the challenge we face when thinking about how we move beyond a superficial commitment to 'purpose', to genuinely reshaping our economy so that it works for working people, their families and communities. As Helena notes:

" 'purpose' is typically more of a marketing device than a true mission. There are of course individual exceptions, but the focus generally remains on short term profits, pay and power. We need to address this before we can feel confident about achieving 'purposeful innovation in finance'.

The TUC believes that moving away from this short-term, and inherently unsustainable, focus requires not just a change of heart from business leaders, but a change in the institutions and legislative framework that regulate our economy and labour market. Exhortations to deliver the 'common good' will not be sufficient to ensure that purpose is embedded in the heart of every business. Business has proved time and time again that if left unchecked, if change is seen as entirely voluntary, workers' interests, and indeed the interests of wider stakeholders are neglected. And the core purpose of trade unions is to ensure that those interests have to be taken account of. As the Archbishop of Canterbury, Justin Welby recently noted in his address to the TUC's 150th annual Congress:

'At the heart of the TUC was the vision that for every oppressed worker there should be an organisation which can speak truth to power with conviction and strength…in every area of work where the weak face the powerful, and the hungry face the satisfied. There must be unions in the gig economy. There must be unions in industries being automated, unions wherever workers are vulnerable. There must be a new unionisation, or, President, there will only be a new victimisation.'[1]

Innovation

But I want to start by setting out a bit more about how companies are innovating now – and how in the main, those innovations aren't helping workers.

The TUC are by no means Luddites when it comes to the promises of new technology. In December, we published a report calling for a target for the government create a million more manufacturing and high-tech jobs by 2030. We think that new technologies, including industrial digitalisation, could allow us to produce more in the UK, and at the same time create more, not less, high quality jobs. We're pleased to be a member of the Government's 'Made Smarter' commission looking to accelerate industrial digitalisation – and to make sure it benefits workers.

We're also positive about how the greater benefits of automation could be used to deliver a better quality of life for everyone. At that same 150th Congress we put the idea of a four-day

[1] https://www.archbishopofcanterbury.org/speaking-and-writing/speeches/archbishop-canterburys-speech-tuc

week on the table as one way in which the rewards from the greater productivity that innovation should deliver could be shared with workers. The average working week has almost halved since 1868, falling from 62 hours back then to around 32 hours today. This reduction in working hours didn't happen by accident, or because employers gifted it to their employees. Over the last century and a half, trade unionists had to fight hard to establish the idea of the weekend as the norm; to put limits on working hours; to introduce paid breaks; and to win legislation limiting the working week and safeguarding shift workers and night workers.

And looking ahead, we believe that if we manage to harness the benefits from technology, the equivalent of a four-day week could become the norm in the twenty-first century.

At present however, we're a long way from seeing the benefits of the innovation reaching workers. Amazon may be one of the starkest examples of this. The latest figures show Amazon's revenue growing in a year from $140bn to just short of £180bn. Its CEO, Jeff Bezos, has said that he has so much money that the only thing he can think to spend it on is literally going to the moon: *'The only way that I can see to deploy this much financial resource is by converting my Amazon winnings into space travel'.*[2]

Meanwhile, in Amazon distribution centres, working conditions are so bad that one of our unions, the, GMB has reported there have been 600 ambulance call-outs to Amazon warehouses over the past three years. Workers complain that shifts are cancelled at short notice. That they are forced to urinate in bottles to meet their pick targets. That they are penalised for having the temerity to miss work because of illness. All this and the company still refuse to even meet with a trade union, never mind to listen to their workers concerns or to act upon them.

And it's not just Amazon workers who feel that the benefits from innovation aren't reaching them. As Helena points out, wages are still, over a decade later, £18 a week below the level they were at the time of the financial crisis. Stagnating wages are contributing to record levels of debt – in figures we published just after Christmas[3] we found that unsecured debt has now reached over £15,000 per household, and the total unsecured debt in the UK is now well above the levels seen before the financial crisis.

We've also seen little innovation in improving the nature of employment or working conditions. Over three million people are now in insecure work – whether that's low paid self-employment, zero hours contracts, or insecure agency work. And far too often what's hailed as innovation is simply an attempt to deny workers their rights. As the courts have repeatedly found, Uber drivers aren't in a new form of employment model – they're simply not being paid the national minimum wage and holiday pay that they are entitled to. In too many companies, risk has been transferred from employer to worker, with reward going in the opposite direction.

And we've also too often seen innovation used to monitor workers, rather than to motivate them. In research we conducted last year, we found that over half of workers believed that they were subject to some form of monitoring at work. The most common forms of monitoring

[2] https://www.cnbc.com/2018/04/30/jeff-bezos-says-this-is-how-he-plans-to-spend-the-bulk-of-his-fortune.html
[3] https://www.tuc.org.uk/news/unsecured-debt-hits-new-peak-%C2%A315400-household-%E2%80%93-new-tuc-analysis

were, email monitoring, CCTV and call logging. But more advanced forms of technological surveillance were becoming common too. [4]

One-in-four (24 per cent) said that location tracking devices, including wearable devices, were used in their workplace. One-in-seven (15 per cent) believed their employer was using facial recognition software. And at the end of last year we heard reports that some companies – if not yet in the UK – were even considering micro-chipping employees. A recent European Parliament report[5] suggests that there are between two and ten thousand micro chipped humans worldwide. It's little wonder that many workers don't yet trust businesses to carry out purposeful innovation!

The role of trade unions

So, what can we do to turn this situation around? For us, of course, it starts with trade unions. As Archbishop Welby set out, trade unions are about the fundamental recognition of imbalances of power in the workplace. Those imbalances of power can only be addressed by people acting collectively.

But we shouldn't see greater union involvement as only benefiting workers. Because there's huge evidence that when businesses do listen to their workforce, it helps deliver the innovation that companies are looking for. Research is increasingly showing that workers who have a say in the workplace, including in how new technology is introduced, are more likely to use it to deliver the productivity gains that have been so elusive in the UK. The recently published 'Skills and Employment' survey for 2017, for example, found that one-in-five workers had identified changes to their working practices that would make them *'a great deal more productive'*. These channels were most likely to be put in place *where 'their views and those of their colleagues were heard'*, but the proportion of workplaces enabling workers to have a say has fallen over the decade.[6]

Similarly, a recent survey of nearly 7,500 workers found that 87 per cent agreed with the statement *'I am keen to embrace technology and maximise its benefits'*, and 73 per cent agreed that technology would improve productivity. However, less than one-in-four (24 per cent) said that their employer gave them a say in how technology affects their work.[7]

It's not just at a workplace level that trade unions benefit everyone, but at an economy level too. The OECD has just published a comprehensive assessment of the role of trade unions in promoting better work - and come out as wholehearted supporters, finding that: *'Collective bargaining institutions and social dialogue can help promote a broad sharing of productivity gains, including with those at the bottom of the job ladder, provide voice to workers and endow employers and employees with a tool for addressing common challenges.'*. That's following hot on the heels of the research by the IMF who found *that 'the evidence strongly indicates*

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[4] https://www.tuc.org.uk/sites/default/files/surveillancereport.pdf

[5] http://www.europarl.europa.eu/RegData/etudes/STUD/2018/614209/IPOL_STU(2018)614209_EN.pdf

[6] Felstead, A., Gallie, D., Green, F. and Henseke, G. (2018) Productivity in Britain: The Workers' Perspective – First Findings from the Skills and Employment Survey 2017, Cardiff University/Economic and Social Research Council/Department for Education, available at: https://www.cardiff.ac.uk/__data/assets/pdf_file/0010/1229833/1_Productivity_at_Work_Minireport_Final_edit_2.pdf

[7] Smith Institute, The (2016) The Productivity Puzzle: A View from Employees, available at: http://www.smith-institute.org.uk/book/the-productivity-puzzle-a-view-from-employees/

that de-unionization is associated with rising top earners' income shares and less redistribution'.

And allowing workers to have a greater voice might do something for trust in business too. The Edelman Trust monitor for 2018 found that 'employees' (50 per cent) have an eight-percentage point lead on CEOs when it comes to who is seen as credible (42 per cent), and a 12 per centage point lead on board members (38 per cent). And 42 per cent of people said that one of their reasons for mistrust in business was that the average worker is mistreated or taken advantage of.

So, a renewed push for trade union representation in every company is at the heart of our plan to make sure that innovation benefits everyone. That will require effort from unions, but also from employers and, most crucially, government. Over the last four decades the clear direction of travel of policy in the UK has been to marginalise unions and to make it more difficult for unions to represent workers.

This broke with the long-held post-war consensus that unions and collective bargaining had a crucial role to play in shaping the labour market and economy, in ensuring workers were treated fairly, and that the benefits of economic success were distributed.

It's time for that direction of travel to be reversed - and we should start by repealing the unfair and undemocratic Trade Union Act. More positively, unions should have the right to access workplaces and to use company IT systems to communicate with workers. Sectoral collective bargaining, common across most of Europe, could help stop incentivising employers to try and win the race to the bottom on pay, terms and conditions and drive up standards in sectors where low pay and insecure work are the default.

Corporate Governance

But alongside the need to push for more trade unions in more workplaces, we know that reforms to corporate governance could make a real difference to workers' ability to shape innovation in the workplace. There are four changes we think are needed.

First, and probably most important, it's time to put workers on company boards. Helena's paper rightly noted the lack of diversity at very top of Britain's companies – even given her great efforts to ensure women are better represented in boardrooms. But perhaps the most obvious absence of diversity is in any perspective from the shopfloor.

Workers inclusion on company boards is normal practice across much of Europe, including in some of the most successful and equitable economies The TUC has long argued for us to follow their lead – electing at least a third of the board, and a minimum of two representatives. We were deeply disappointed when the Prime Minister reneged on her commitment to put workers on boards. Amending the FRC code of Corporate Governance to include the absurdity of appointing a non-executive director to 'represent' workers will do nothing to address that lack of diversity, and fails to recognise the simple but fundamental principle that workers can, and must be allowed to, speak for themselves.

The next step would be to look again at the duties of board directors. At present, directors' duties require directors to act in good faith to promote the success of the company for the benefit of its members (that is shareholders), and in so doing to have ‘regard to’ the impact of decisions over the long-term, the interests of employees, supplier and customer relationships and environmental and community impacts. It is clear that in this formulation shareholder interests are prioritised over those of other stakeholders. In addition, the duty to promote the success of the company is presented as a route to serving shareholder interests, and there is therefore a strong argument that the interests of shareholders have primacy over those of the company itself.

We believe that this framing has encouraged the kind of short-termism that Helena raised in her paper – and that’s why we believe the duties need re-writing to require company directors to promote the long-term success of the company as their primary aim. Through the long-term success of the company, the interests of other key stakeholders, including workers and long-term shareholders, will also be served. Directors should be required to have regard to the interests of shareholders, alongside those of workers and the other stakeholder groups such as suppliers and customers.

Thirdly, we need to recognise that the nature of shareholding has changed, so that rather than being long term stewards of company interests, shareholders are often transient bodies in search of quick profit. The TUC has proposed that shareholders’ corporate governance rights to voting and engagement should be subject to a minimum period of share ownership, which we have suggested should be two years – again, helping to promote long term stewardship.

And the final piece of the jigsaw is developing the new institutions of accountability we need to make corporate innovation work, ensuring how they treat their workers is recorded and can be scrutinised. We’ve seen some progress in this area, with requirements for companies to report on their gender pay gap, and on the ratio between top and median pay. But we believe that how companies treat their workforce should be a fundamental part of all company reporting.

Companies should be required to report on their employment model, including the workforce composition and structure – as well as more accepted diversity reporting. This should include the type of contract through which the workforce is connected to the company and the use of employment intermediaries. Reports should also include what the company is doing on workforce voice and representation; rates of staff turnover, absence and sickness; pay, pensions and progression; training and development and health and safety. These are all issues that companies should be collecting data and information on anyway; disclosure simply allows their efforts to be opened up to public scrutiny.

Conclusion

The 2018 Vatican letter on the financial system, noted that we have seen the development of a:

‘…logic [that] has often pushed managements to establish economic policies aimed not at increasing the economic health of the companies that they serve, but at the mere profits of the shareholders, damaging therefore the legitimate interests of those who are bearing all of the work and service benefiting the same company, as well as the consumers and the various

local communities (stakeholders). This is often incentivized by substantial remuneration in proportion to immediate results of management, but not likewise counterbalanced by equivalent penalization, in the case of failure of the objectives, though assuring greater profits to managers and shareholders in a short period, and thus ending up with forcing excessive risk, leaving the companies weak and impoverished of those economic energies that would have assured them adequate expectations for the future.

All of these factors easily create and diffuse a profoundly amoral culture—in which one often does not hesitate to commit a crime when the foreseen benefits exceed the expected penalty. Such behaviour gravely pollutes the health of every economic-social system It endangers the functionality and seriously harms the effective realization of that common good, upon which is necessarily founded every form of social institution.'

Challenging that culture will require new institutions and a new legislative framework that put workers and their interests at the heart of company behaviour. Trade unions were founded to fulfil that purpose – and we'll continue to stand up for innovation that works for everyone.