Reforming the Investment System to Promote Good Work

The investment system has a vital role to play in ensuring good working conditions in the UK and throughout the world. This briefing outlines how regulatory change and specific policy developments can facilitate that role.

We need an economy that promotes 'Good Work' – jobs that provide financial security, emotional wellbeing, and opportunities for personal development. However, the number of people in low-paid, insecure employment is rising. This is affecting productivity and economic growth. This briefing outlines how policymakers who care about Good Work should also look for solutions in the investment system – and the reforms that are needed to maximise its potential.

Why do we need to promote Good Work?

Good Work ensures a secure future for workers and the economy. In signing up to the UN Sustainable Development Goals, the UK has said it will promote 'decent work and economic growth'.[1] We are falling short of this. Over half of people in poverty in the UK live in a working household.[2] In competing economies, wages have grown – in the US by 6%, France by 10%, and Germany by 13%. British wages have shrunk by 10%.[3]

The Taylor Review of Modern Working Practices highlighted how failing to promote Good Work damages economic output - in 2016, 15 million working days were lost due to stress, anxiety and depression.[4] Employers are starting to recognise this is an issue. In a survey of 800 businesses that pay the Living Wage Foundation's Living Wage, 93% reported benefits including greater productivity and reduced turnover as a result.[5] This is creating a stronger workforce that is not reliant on welfare and receives decent pay. Companies also risk operational, legal and reputational damage when their supply chains don't promote Good Work. The 2015 Modern Slavery Act requires companies to issue a statement on how they ensure slavery is not taking place in their supply chains; at least 9000 companies aren't yet compliant.[6]

What is the link between Good Work and the investment system?

When a publicly traded company promotes Good Work – or fails to do so – it has a material impact on its financial performance. Consequently, it is an issue of which investors are taking note. Studies suggest promoting Good Work encourages better long-term performance – in an analysis of 2,200 case studies of corporate financial performance, 90% of the studies showed a positive relationship between performance and consideration of environmental, social or governance (ESG) factors.[7] We all have a vested interest in ensuring strong

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companies. Most of us have a pension scheme that invests in publicly listed companies. When we have strong companies, we have strong pensions, upheld by reliable, long-term shareholder returns.

How can the investment system promote Good Work?

The investment system can help create an economy founded on Good Work. 20 investors, representing £1.7 million in assets under management, have signed up to ShareAction's initiative to get more companies accredited with the Living Wage Foundation. In addition, our Workforce Disclosure Initiative (WDI) is mobilising investors who are conscious of how Good Work affects financial performance. They are demanding companies provide more information on how they are managing their supply chains, ensuring they uphold labour rights on an international scale.

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What is stopping investors going further in promoting Good Work?

There is a problem of "short-termism" in UK capital markets. Many investment managers invest on the basis of short-term movements in share price as opposed to the fundamental value of the company. The short-term focus of these investment managers is misaligned with the long-term interests of the pension savers whose money they are investing.

A lack of legislative clarity has caused confusion among pension trustees, many of whom continue to think that their fiduciary duties mean they must maximise short-term profitability. There is also little transparency or accountability in pensions, so pension savers are not able to scrutinise decisions not being made in their best interests.

Recommendations for policymakers

We need to reform pensions and investment policy to encourage more long-term thinking and promote Good Work. We suggest a number of policy solutions to facilitate this.

1. The DWP, the FCA and The Pensions Regulator should accept the Law Commission's recommendations[8] to amend the rules governing pension schemes. They should clarify that when making investment decisions, scheme managers should consider potential financial implications of workforce issues, which could affect savers' returns.
2. The UK Stewardship Code should be refined. Asset managers have a duty to sustain investment returns and guard against financial risk for their pension scheme clients. This includes recognising how Good Work issues affect financial performance – the Code should reflect this. Asset managers should also disclose how they manage this risk.
3. The Government should exercise its reserve powers to make voting disclosure mandatory for institutional investors. This would allow pension savers to know which way asset management firms vote on shareholder resolutions at company AGMs. This would increase transparency on executive pay and other corporate governance issues.
4. The Government should secure a legal right for savers to know where their money is invested. This will guarantee savers can find out which companies make up their pension scheme's stock portfolio.
5. The Pensions Regulator should amend the Master Trust Assurance Framework. It should recommend 1/3 of trustees of master trust pension schemes are Member-Nominated Trustees (MNTs). This diversifies the governance structure of the scheme, and when decisions on investment strategy are taken, there is scope for factoring in Good Work issues.

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About ShareAction

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes Responsible Investment practices by pension providers and fund managers. ShareAction believes that Responsible Investment helps to safeguard investments as well as securing environmental and social benefits.

shareaction.org
info@shareaction.org
+44 (0)20 7403 7800

16 Crucifix Lane
London, United Kingdom
SE1 3JW

Contact

Rachel Haworth
Policy Officer
ShareAction
rachel.haworth@shareaction.org
+44 (0)20 7403 7800

David O'Sullivan
Policy Officer
ShareAction
david.osullivan@shareaction.org
+44 (0)20 7403 7800

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