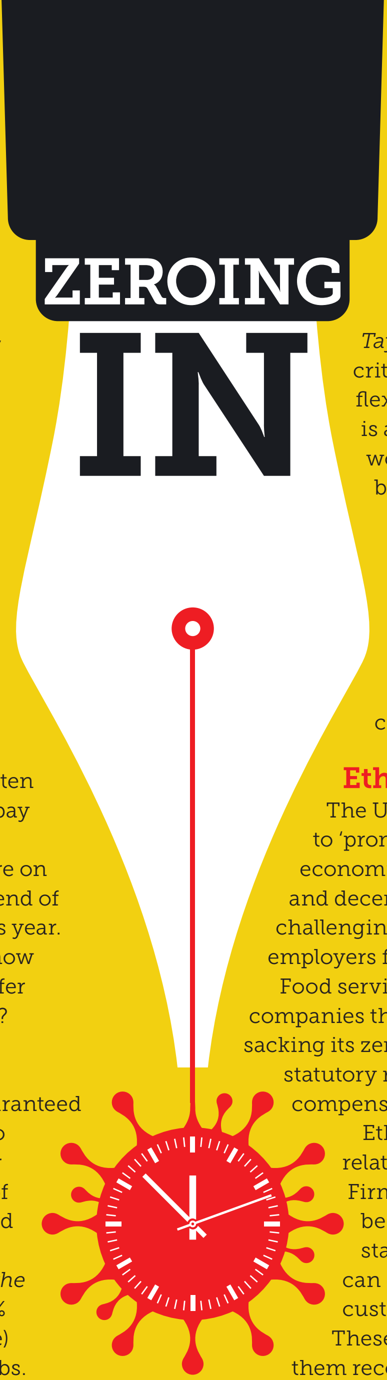
ZEROING IN



Ethical investors must apply pressure to ensure that companies are providing decent working contracts and conditions, say ***Sarah Waters*** and ***Quintin Rayer***

COVID-19 has exposed the vulnerability of millions of UK workers employed on zero-hours contracts. For them, self-isolation means a sudden loss of income, often without access to redundancy payments, sick pay or universal credit. According to the Office of National Statistics, a record 974,000 people were on a zero-hours contract for their main job at the end of 2019. This is a 130,000 increase on the previous year.

The challenge to ethical investors is clear – how do they encourage powerful corporations to offer fair conditions of employment for honest work?

What are zero-hours contracts?

Zero-hours generally means an absence of guaranteed employment hours. While the employee has no obligation to accept work offered, the employer is not obliged to provide a minimum number of paid hours. Use of these contracts has increased in recent years, partly because of the financial crisis. A 2020 Health Foundation report, *What the quality of work means for our health*, shows 36% of UK workers (approximately 10 million people) work in poor-quality, precarious or low-paid jobs.

Companies face intense cost and efficiency pressures in today's globalised economy, making zero-hours contracts tempting. Employers can minimise financial and contractual obligations while transferring risks to employees and reducing labour costs. These contracts take a physical and mental toll on employees. Research such as 'Precarious employment: Understanding an emerging social determinant of health' (*Annual Review of Public Health*, March 2014) has linked precarious work with poor mental health, rising stress levels, depression and even suicide. Economist Guy Standing regards the 'precariat' as a new social class of the 21st century. They lack stability, are unable to gain a foothold in society, and move in and out of jobs that give little meaning to their lives.

The regulatory response

The UK labour model sees flexibility as a key strength. The perception is that zero-hours contracts get the unemployed into work. The government's 2017 report *Good Work: The Taylor Review of Modern Working Practices* criticised zero-hours work as offering 'one-sided flexibility': "Being able to work when you want is a good thing; not knowing whether you have work from one day to the next when you have bills to pay is not."

While the report emphasised quality rather than just quantity of work, it agreed that labour market flexibility should remain. It concluded that flexibility helped businesses create jobs, supporting many millions into work. Its strategy for tackling zero-hours work was not regulation, but encouraging companies to improve their practices.

Ethical investment

The UN's Sustainable Development Goal 8 is to 'promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all'. Such principles can be challenging to translate into regulation that will prevent employers from using exploitative forms of labour.

Food services company Aramark is one of many companies that responded to the COVID-19 crisis by sacking its zero-hours employees. Without rights to statutory redundancy payments or unfair dismissal compensation, employees cannot challenge this.

Ethical fund managers engaging with work-related issues need to ensure tangible results. Firms that evade employee responsibilities can be avoided, or their shares divested. By treating staff fairly during challenging times, companies can develop strong relationships with clients, customers, suppliers and business partners. These actions earn them loyalty that will help them recover strongly once the current crisis passes.

Zero-hours work has enabled an unacceptable degree of exploitation that is presented as freedom of choice, and created a vulnerable class that is hard pushed to protect itself against crises. Conscience dictates that corporations and political leaders must accept their responsibility to protect employees.

Ethical investors can show leadership by promoting a corporate social conscience. As shareholders and custodians of bond capital, they can emphasise to company boards that during the current COVID-19 pandemic, companies should accept their social responsibilities to protect employees and stakeholders. After all, companies form part of a broader society that supports them with resources, employee talent, customers, clients, business partners and financial capital.

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