SIPTU

Services Industrial Professional & Technical Union

The Good Company

From Shareholder to Stakeholder Governance

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The Need for Good Companies

- A question once considered on the fringe is now moving to a central place in the debate: is the way we organise production within enterprises compatible with environmental need, social inclusion and economic efficiency?
- Until recently there was little interrogation of the 'company' in progressive political economy. However, the recent US and UK elections saw proposals to change the governance of companies (e.g. worker-directors, labour law reform, employee trusts) while ETUC and SIPTU have launched workplace democracy campaigns.
- There is a growing recognition that corporate governance need to be reformed if business is to pull with rather than against social purpose. Various adjectives describe this need in different ways: 'stakeholder' company, 'purposeful', 'sustainable', 'democratic', 'resilient' company, etc.
- Here we use the simple adjective: Good Company.

Rooted in Stakeholder Theory

- The Good Company is situated in the 'stakeholder' paradigm, which is defined by its lack definition. A stakeholder has a legitimate and indispensable interest in the organisation. But this doesn't imply equality of treatment in the decision-making process.
- The Business Roundtable of major CEOs called for a corporate re-purposing away from shareholder value to a commitment to its stakeholders: customers, suppliers, communities . . . and workers.
- In Ireland, IBEC's Danny McCoy has referred to a new stakeholder model: 'stakeholder capitalism'

Jeff Bezos, CEO Amazon
(signed Business Roundtable declaration):

'Investing in our employees . . . Treating them fairly and providing important benefits . . . supporting them through training and education . . . (fostering) diversity and inclusion, dignity and respect.'

Little Impact to Date

- The declaration has had little impact on corporate behaviour among Roundtable signatories. Lala and Paladino found little move from trend in stock buybacks, long-term debt and cash assets. Bebchuk and Tallarita found no change in corporate governance guidelines and almost no Board involvement, suggesting it was a '*PR gesture*'. According to Makeower (a CEO) :

  > *"To the extent that it provided a fig leaf that enabled CEOs to pursue business as usual—well, it was probably worse than doing nothing at all."*

- There haven't been any developments to assess IBEC members' attitudes towards McCoy's call for a new stakeholder model.

- If stakeholder governance is dependent on only one stakeholder – shareholders – it will logically be subordinated to their interest.

The Struggle over Definitions

- A danger that the stakeholder debate will deteriorate into degraded PR gestures where the Jeff Bezoses of the world can lay claim to the stakeholder label. To give it concrete definition, progressive stakeholder governance

1) Acknowledges the **primary, though not exclusive, roles of employees and employers** (labour and capital) in company governance
2) Assumes an **inexorable movement towards power equivalence** between stakeholder inputs into firm decision-making though the mechanisms and channels can differ across sectors and economic level
3) Is **not voluntary. It is structural** (though likely to reflect the prevailing economic and political power relationships)
4) Is the **legitimate subject (even imperative) of state action –** as an expression of wider democratic and stakeholder interests.

- Stakeholder governance and traditional trade union demands for workplace democracy coincide. Progressive stakeholder governance is worker-driven.

The Struggle over Measurements

- A second challenge: how to measure the 'good' in the Good Company. Traditional measurements, revolve around profit line and net margin, share price, balance sheets, market share. Shareholder value totalises these measurements; stakeholder value integrates them into wider criteria.
- Measuring the Good Company can start with observing '*negative externalities*' – the imposition of costs on third parties. Classic example: the river-polluting firm – accumulating value by transferring costs to the environment, recreational users, occupations reliant on clean water, state clean-up costs, public penalties.
- While environmental externalities are the best known, externalities feature in a wide range of social and economic relationships. Example: low-pay.

Low Pay and Precarious Externalities

Costs imposed on to Employees
Inability to make ends meet or meet unexpected expenses, health-related impacts, inability to fully participate in consumer economy, financial exclusion, stress-induced household decision-making, environmental degradation – and where children are involved, scarring into adulthood with lower educational achievement
Costs imposed on to Public Finances and Economy
Reduced income tax/social insurance/consumption tax revenue, low value-added growth, higher social protection costs
Costs imposed on Other Businesses
Reduced turnover for other businesses reliant on domestic demand, impact on wages and employment in these sectors, reduced investment, caught in a low-wage, low-skill equilibrium

Reversing Negative Externalities

- A company that engages in these actions is neither 'good' nor 'successful' but it can make money for one stakeholder – at the expense of others. In stakeholder governance we can begin to distinguish between the company and the interests of particular stakeholders.
- Turning these into positive externalities (negating the negative) rewards all stakeholders – less health problems, increased consumer participation, rising tax revenue, increased turnover and investment, reduced low-wage subsidies. The Good Company seeks to internalise negative externalities within socially reconstructed markets that penalise harmful activities and rewards good ones..
- Objections: 'enterprises can't afford to do this', 'reduces competitiveness', 'limits flexibility', etc. Trade unionists and progressive must fully enter these debates and interrogate these claims, constructing an alternative prism through which society can view enterprise activity.

Stakeholder Inclusion Drives Performance and Productivity

- In aid of its Workplace Democracy campaign, SIPTU's Daniel Higgins (Forthcoming) has amassed a considerable body of literature regarding the positive impact of greater labour inclusion in firm-level decision-making (i.e. collective bargaining on productivity, firm performance and economic output). The jury is not out – it is in: employee participation produces better business.
- OECD shows the positive impact of sectoral bargaining on firm performance and economic outcomes. This can protect the Good Company from low-road employers (a main reason for establishing Trade Boards in early 20th century).
- As employees climb the stakeholder-inclusion ladder – from the first rung of information and consultation, through collective bargaining, employee participation, worker-directors, works councils, co-determination and labour managed firms - productivity and performance rise. A little bit of democracy improves firm performance a little bit; a lot of democracy has an even bigger impact.

Challenging the Conventional

- A progressive stakeholder paradigm challenges the way we think about interactions with the firm. Example:
- If collective bargaining improves firm performance then management opposition actually undermines business performance.
- And employees, taking industrial action in pursuit of collective bargaining, are actually acting in the best interests of the firm.

From Theory to Practice

- When examining strategies to implement the Good Company there is a temptation to initially look to the state. However, that misses the point of stakeholder governance.

- There is no autonomy for employee stakeholder interests without employee organisation. Just as shareholders are collectively represented by management, employees have a right to collective representation. Every workplace organised is a step towards the Good Company.   Trade unions must **prioritise organisation**, cooperative relations and shared strategies.
- Abandon the **pretence of IR voluntarism** (voluntary for employers, not employees) and campaign for binding sectoral bargaining complemented by a stronger firm-level bargaining regime.
- Demand Government keep its Programme commitment to establish **sectoral committees** with full stakeholder participation. This can be the first step towards national-sectoral planning.

Reshaping the Market

- In addition to collective bargaining – both sectoral and local - we need to reshape the market to provide fertile ground for Good Company growth. Develop proposals for **employee-directors** (the Central Bank has threatened banks with gender quotas on Boards; a similar argument can be made for employees) and **enterprise (works) councils**, based on experiences and models in the EU.
- **Full financial transparency**. Current exemptions and limited financial reporting clauses results in asymmetric information or information failure leading to sub-optimal outcomes.
- New reporting / auditing requirements for companies. The Government is legislating for gender pay gap reporting. This could be extended to reporting pay gaps between senior executives and median employee pay similar to the **CEO Pay Ratio** reporting in the US.

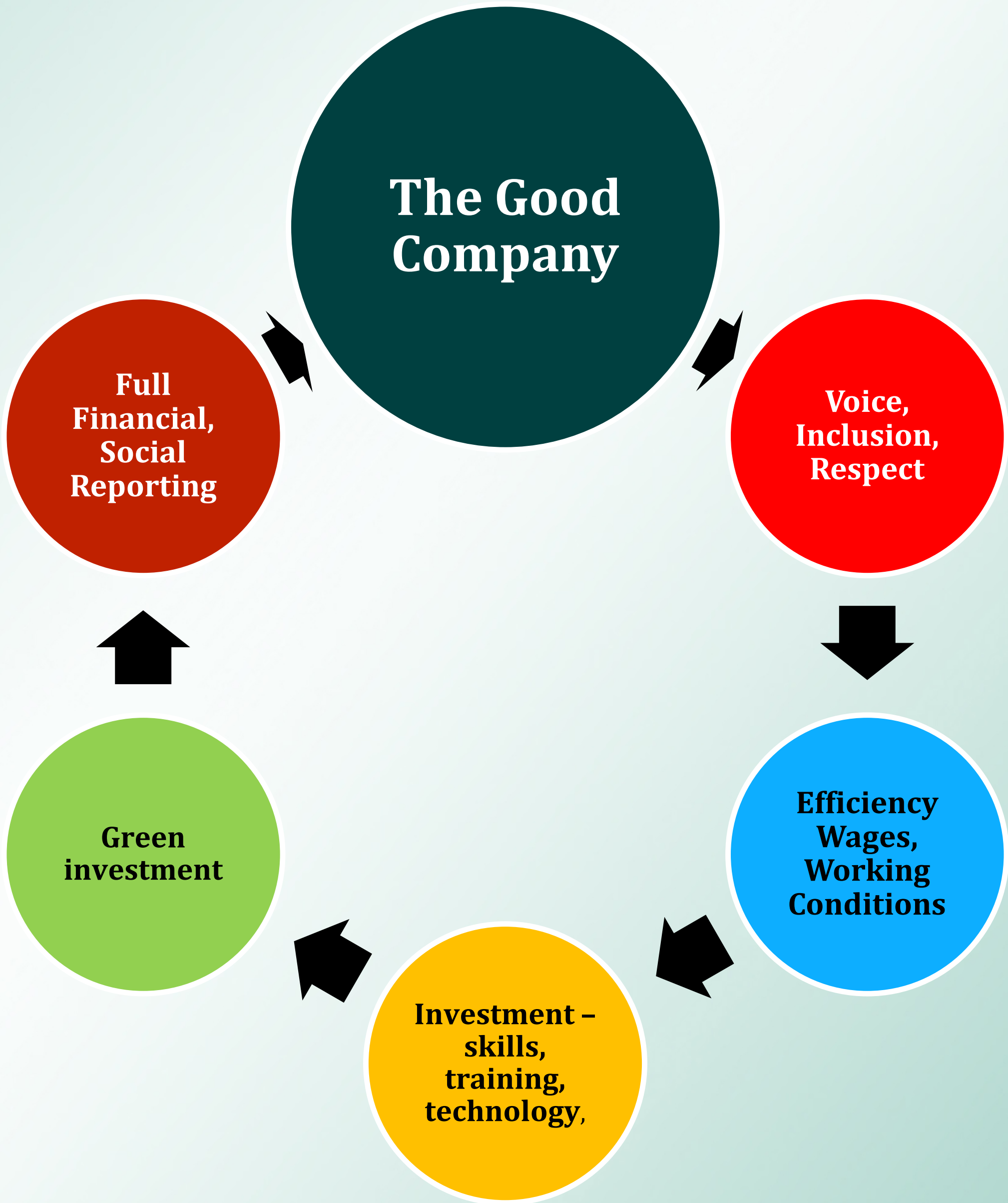
State Incentives for Good Companies

- Stakeholder governance should not be voluntary. But while the state can prevent bad practices and set minimum floors (sectoral bargaining, financial transparency, new governance requirements) it cannot force reluctant companies to be good. This will need incentives.
- Social clauses for public procurement is a powerful tool given the size of its budget (€15 billion). The state can help develop Good Companies through enhanced environmental and social clauses written into procurement projects. These could include respect for employees choice to bargain collectively, commit to state's industrial machinery, employee-director (where appropriate), living wage, commitment to R&D and in-house training/up-skilling).
- Similar standards could be applied to all grant-aiding agencies (Enterprise Ireland, IDA) in return for enhanced suite of grants and supports. This can be further extended to publicly owned/funded anchor institutions (hospitals, universities, public enterprise companies).

What the Good Company Does When its being Good

- The Good Company starts to do a number of things depending on the sector of the economy it operates in.

- ➢ Integrates all stakeholders, where practical, into firm decision–making (collective bargaining, flatten hierarchies, Board participation, employee participation, enterprise councils, etc.). This is about voice, inclusion and respect.
- ➢ Pursues efficiency wages and working conditions
- ➢ Invests in skills, training (apprentices) and career progression; new technologies and enterprise expansion - pursuing high value-added strategies; prioritising the social utility of profits (that is, investment).
- ➢ Pursue environmentally sustainable activities (green production and sourcing, circular economy)
- ➢ Financial and social transparent reporting


The Good Company
Voice, Inclusion, Respect
Efficiency Wages, Working Conditions
Investment – skills, training, technology,
Green investment
Full Financial, Social Reporting

Moving Ireland to the Top of the Class

- With both the Fiscal Council and the Department of Finance predicting that by the end of this decade we will be entering 20 years of economic drought (average annual 1% increase in GNI*) we need to look at the elements of long-term growth.
- Improved outcomes will be based on economic and social investment – requiring substantial fiscal intervention.
- However, the Good Company has no upfront financial costs. Rebalancing the power relationship itself at firm and sectoral level can boost productivity and innovation.
- Currently, Ireland ranks low in the ETUI's Workplace Participation Index. By promoting the stakeholder agenda and a new workplace model we can turn this around and reap the economic and fiscal benefits flowing from this.
- The Good Company can become the common sense of Irish business.

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