



A BRAVE NEW WORLD?

Nicola Parker and **Jackie Turpin** of the Joseph Rowntree Charitable Trust take a hard look at power and accountability in the technology sector and the role of trusts and foundations as investors.

The last few years have seen a seismic shift in morality challenging our two societal norms: the importance of truth and the right to privacy. It used to be that while we accepted journalistic bias, we essentially believed the baseline news that we were being fed. Now things are different. Fake news appears to be an accepted component of our news feed and some of the most powerful people in the world seem to lie with impunity and get away with it. Today more value seems to be placed on salacious bluster and bravado than truth.

Furthermore, we are seeing attempts through social media to use our personal data to influence how we think, feeding into our subconscious fears and biases to manipulate our behaviours. Our access to social media platforms may be without direct monetary cost but there is a real price to pay in exposing our data to those who would use it for political or commercial gain or malicious purposes. In addition, some of the positive aspects of social media are being called into question, with young people suffering

from more loneliness and anxiety than previous generations.

In tandem with these developments, exponential technological advancements elsewhere are, or soon will be, revolutionising our lives. We are seeing the increasing use of artificial intelligence applications, including the use of automated vehicles, which are likely to significantly change the nature of work for many people, and have the capacity to exacerbate already growing social inequality.

THE ROLE OF TECHNOLOGY COMPANIES

On balance we used to regard technology companies as socially and environmentally beneficial, and indeed many of them position themselves as being about the consumer, empowering the individual.

However, over time the power of these companies has increased and the dominance of Facebook, Google and Amazon has led to self-perpetuating

network effects and anti-competitive behaviour with relatively little regulatory accountability. Furthermore, in China, while there are examples of social media being crucial to the free flow of ideas, these benefits are in the context of China building Orwellian surveillance systems – the like of which the world has never seen before. The aim is to monitor and control citizens (and of course lock up dissidents and troublesome minorities) based on an array of technologies, from facial recognition systems to an all-encompassing data collection system every time a person logs on, drives, or even walks down the street.

In short, along with benefits of hugely powerful consumer-centric companies have come huge issues of accountability and power misuse that vary depending on the type of company, its underlying business and where it operates. Although these companies are now being challenged by the media, regulators and society, many of these groups are struggling to understand and keep up with technological change.

WHAT DOES THIS MEAN FOR THE INSTITUTIONAL INVESTOR?

From a financial risk perspective the issues are clear. Technology companies are already attracting the attention of regulators, and the risk to reputation and from fines, regulation, the removal of licences, the forced break-up of companies and prevention of mergers cannot be ignored.

Moreover, there is widening acceptance in the US and Europe that the current regulatory framework is inadequate for dealing with these issues and a variety of voices such as the European Commission's Margrethe Vestager are calling for a fresh approach, looking at radical ideas. The received wisdom that if monopolies do not raise their prices for consumers (and many internet companies' services are 'free') then they must be harmless, is falling apart and other metrics for assessing competitiveness are needed.

Furthermore, while there is a great deal companies could do to get on the front foot, they have failed to seize the initiative in any meaningful way. Actions such as public statements by Mark Zuckerberg that he will 'fix Facebook' appear piecemeal, reactive and ad hoc.

But of course, as endowed foundations, financial risk is not our only concern. We all work hard to try to make the world a better place. However, if we fail to ensure the responsible and socially accountable development of technology, our beneficiaries may not thank us for the world we leave them with. We have already touched on the negative social impacts of technology. But equally as worrying is that, if the US technology companies do not show leadership on some of the key issues posed by technology, then their Chinese counterparts might set the rules of the game and there is a real threat that we could find ourselves living in a world that is very alien to the one of open democracy that we are used to.

OUR RESPONSIBILITIES AS INVESTORS

These are all issues that the Joseph Rowntree Charitable Trust has been grappling with. Through our grant-making programmes we are willing to fund people thinking about these matters in the

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broader context. But we also recognise our responsibilities as an investor. While acknowledging the huge advantages that technological advancement can bring, we are also wary of its negative impact and recognise that we cannot afford to be complacent.

We know that we cannot predict technological changes with any degree of certainty. Nor can we necessarily predict how the technologies might be used, or what their outcomes might be, not least because of black holes in the data that allow decision-making software to operate in ways that are not fully understood by the programmers.

That said, there is no excuse for us, as owners of capital, not to try to ensure that our investee companies are, at the very least, well placed to understand the impact of technologies as they develop and to anticipate the ways in which they could be used, abused or fail. Moreover, we need to ensure that our investee companies are 'value fit' guardians of the technologies of the future and manage them in a way that is to the benefit and not detriment of society.

STARTING CONVERSATIONS

We are at the very early stage of our journey in thinking about these issues. The first step for us has been to hold open and honest conversations with our fund managers about the challenges they face when investing in technology companies.

What has been immediately clear to us is how important it is to have fund managers who 'get' the importance of addressing these matters. This is not simply to protect our financial returns or salve our conscience. It is about ensuring that those effectively providing capital to technology companies are having the right conversations with these companies. They are uniquely placed to share their expertise and to bring pressure to bear on them.

WHAT SHOULD INVESTORS ASK OF THEIR FUND MANAGERS?

As investors we need to ensure that our fund managers are addressing the important issues of power and accountability that technology companies pose. Some issues regulators are beginning to grapple with and so perhaps require less activism. But on others, that regulators have struggled to understand or have seen as being outside their remit, we need to play a more pivotal role in ensuring accountability.

At the very least we should be expecting our fund managers to:

- Ensure that the technological companies in which they invest have a clearly identifiable, transparent and reported ethical values base that transcends the company from board level to the shop floor.
- Ensure that the boards of these companies are sufficiently diverse to include both value carriers and individuals with current technological expertise so that the board is equipped to deal with all the challenges it faces.
- Encourage these companies to adopt guiding principles such as those espoused by UNI Global Union's 'The Future World of Work'.
- Encourage these companies to be transparent about their lobbying.
- Encourage both US and Chinese technology companies to push for global ethical standards.
- Encourage more industry-wide action such as an industry board of ethics.

Critically, in respect of all of the above, our fund managers should work with other fund managers to share expertise and present a united front when engaging with these companies.

And for all our sakes, we should be expecting them to do this now! ●