

CORPORATE GOVERNANCE: MAKING BUSINESSES WORK FOR THE COMMON GOOD

Context

How we govern business is critical to creating a fairer economy.

The decisions made in boardrooms in Britain and abroad have a huge impact on the way we live our lives. From fashion to food, businesses have the power to make a difference to our environment, our working lives and our communities – whether for the better or the worse.

As co-operators our movement comes from the shopfloor and factory workshop – and we believe that our values should still find a home there. We want to see an economy characterised by fairness and this means all businesses playing their part.

There are many examples of responsible businesses making decisions which will have a long term positive impact on our environment, local communities and wider society. From social value to responsible contracting and promoting equalities, there's great potential. We're proud that the co-operative sector leads the way, showing that businesses can make a positive change for the victims of modern slavery, that co-operative stores serve continue to provide good quality food in some of Britain's most deprived communities, that surplus can be invested in community spaces and tackling loneliness. Co-operatives are pioneering alternatives to plastic packaging and championing Fair Trade.

However, a lot of the rules that govern corporate behaviour are in fact little more than suggestions – voluntary codes which recognise those businesses already doing good without penalising those who don't. Some notable exceptions notwithstanding, too many PLC and private companies have become fixated on short term profit maximisation at the expense of their workers, their customers, the environment and the wider economy.

Many of the economic and social problems we face in today's economy can be put down to the lack of accountability of Britain's big businesses. Similarly, there is scope to improve accountability in other sectors too – ensuring public sector bodies are involving their stakeholders and service users.

Despite the 2006 change to Company Law requiring businesses to focus on long-term profitability and their impact on their stakeholders (the public, their employees and the environment), little has changed and new corporate scandals continue to come to light almost daily, while public trust in PLC and private business remains historically low.

It is all too easy to be an irresponsible business, while those businesses choosing to do the right thing can be left at a competitive disadvantage for doing so. This needs to be reversed, so that good company behaviour is the norm; corporate governance is reformed for the benefit of workers, consumers and the environment; and private businesses behaving badly are penalised.

Current policy

A Marcora Law for British workers

In Italy, the innovative “Marcora Law” gives workers access to financial resources and business support to buy out their company if it’s being sold or is at risk of closing down. The government should learn from this example, to give workers new rights to take a stake in their workplaces. This support should include financial assistance from the government, as well as tasking the new National Investment Bank and Regional Development Banks with providing appropriate finance to employees considering a worker buyout.

New legislation should give employees a statutory ‘right to request’ employee ownership during business succession, alongside an ‘early warning’ resource capable of informing workforces in advance of insolvency or disposal of a viable business. This would enable employees to assess the scope for acquisition and prepare a bid.

Review of laws to ensure a level playing field

Co-operative and mutual enterprises continue to operate under a regulatory framework that can disadvantage them in contrast to company law. Laws applying to co-operative and mutual enterprises should be reviewed to ensure they benefit from a level playing field and to ensure no policy has unintended consequences for the co-operative sector, or Henry VIII powers in the Co-operative and Community Benefit Societies Act 2014 should be attached to all the various thresholds and other provisions which require regular update

Consumers on boards

Britain’s businesses lack the scrutiny needed to prevent bad corporate behaviour and to ensure consumers get a fair deal. Corporate governance requires urgent reform so that, where appropriate, consumers have a voice on company boards.

Fair Tax

The Co operative Party wants to see a more equitable system of taxation for businesses in the UK which enables small, regional and cooperative businesses to grow while ensuring big businesses play by the rules and contribute their fair share. Tax transparency is key to ensuring that UK businesses are paying their fair share of tax. Measures such as the Fair Tax Mark will make it easier to reward firms doing the right thing and identify those who are not. The Co-operative Party is proud to be the first political party to be awarded the Fair Tax Mark.

Board reform

In the European ‘stakeholder’ approach to business, employees are given a formal role in making decisions about how a company is run. All publicly listed companies should have a ‘duty to involve’ their employees at a workplace level, and have representatives of employees on their board.

These new rights would operate in addition to, not instead of, the vitally important role that trade unions play in Britain's workplaces, and the Co-operative Party would like to see a higher penetration of trade union membership and recognition in the private sector.

Similarly, consumers on boards, where appropriate, would supply Britain's businesses with the scrutiny needed to prevent bad corporate behaviour and to ensure consumers get a fair deal.

Triple bottom line reporting

Despite the existential threat of climate change, private businesses continue to profit from unsustainable behaviour – paying more regard to their bottom line than their impact. There are some businesses which understand that their long-term profitability cannot be decoupled from their social and environmental responsibilities – however, too many businesses continue to pursue business as usual.

New measures are needed so that business which behave responsibly are rewarded, while those which don't currently are compelled to take stock. This could take the form of an amendment to company law to require companies to report on environmental and social impact as well as their bottom line, giving consumers, employees and shareholders the information they need to be able to seek enforcement.

Modern slavery

There should be a penalty for non-compliance with the Modern Slavery Act, and it should be extended to cover the public sector as well as private business. Support for victims should be extended.

Human rights

The Co-operative Party believes that human rights are universal, and that it is the job of strong and mature democracies to support the development of free societies. The government should legislate to provide victims of human rights abuses with access to the British courts for remedy, compensation and criminal prosecution when these are found have been committed by, or in collusion with, UK based multi-national companies.

Employment rights

Employment law needs to be amended so that all working people benefit from the same decent employment rights and enjoy the same protections. This should include clear rules to prevent employers getting out of their employment responsibilities or misclassifying staff as self-employed.

The rights of workers to trade union representation in the workplace must be enforced in every business.

Workers' rights cannot become a casualty of Brexit, and as EU rules develop and improve, rules in the UK at least keep pace ensuring workers in the UK continue get the same or better rights as their European counterparts.

One million worker owners

An economy where workers own a stake and have a say in their workplaces has lower wealth inequality, higher engagement and productivity, and more resilient businesses, as highlighted in the Co-ops UK and Employee Ownership Association's #1MillionOwners campaign. The appropriate government investment should be made to support a voluntary expansion of employee ownership, so that there are one million worker-owners by 2030.

Right to request

New legislation should give employees a statutory 'right to request' employee ownership during business succession, alongside an 'early warning' resource capable of informing workforces in advance of insolvency or disposal of a viable business. This would enable employees to assess the scope for acquisition and prepare a bid.

Employee share ownership tax relief

Tax reliefs should be reformed so that they are only offered to all employee share ownership schemes that require employees to purchase and hold shares for a number of years in order to benefit. The significant savings to the government as a result should be invested in giving permanent employee benefits trusts the same tax treatment as temporary schemes, developing new schemes that give employees a collective democratic choice, and a new Co-operative Entrepreneurs' Programme to augment existing start-up support.

Profit share

Co-operatives are not a last-ditch response to crisis, and nor should workers have to wait until a business owner is ready to retire to have a meaningful stake and say in their workplaces.

Urgent action is needed to re-establish the link between profits and wages – so legislation to ensure that all British businesses with more than 50 employees are obliged to set up a profit-sharing scheme with their staff, with a minimum profit share pot set aside based on a calculation of its annual profits and its financial position.

In addition, all larger shareholder- or privately-owned businesses should be required to have an 'inclusive ownership fund' where a small amount of profit is transferred into a worker or wider stakeholder-owned trust, which gives workers a collective voice in how the company is run. This would democratise the parts of the economy that are narrowly owned and don't share their rewards fairly, rather than the existing worker and consumer co-operatives who would be exempt.

Questions

1. What does responsible business mean to you?
2. Take a look at the Party's current policy platform in this area. What policies do you agree with, which would you change, and which do you think are no longer relevant?
3. How can we ensure that workers, communities and consumers' voices are heard in corporate board rooms?
4. How can we encourage and/or require UK businesses and boards look beyond short-term profit maximisation to consider wider environmental and social factors too?
5. What do you think companies should report on that they do not need to report on currently? How can companies best promote equalities and combat inequalities?
6. The UK has been beset by corporate scandals, from depleted pension funds to workplace rights and paying a fair share of tax. Which have stood out to you as the most important to tackle? What are your ideas to prevent corporate bad behaviour, and create a level playing field for the majority of businesses who do play by the rules?