THE PRINCIPLES FOR RESPONSIBLE INVESTMENT PODCAST TRANSCRIPT

EXPLORING THE RESPONSIBILITY OF INVESTORS IN ADDRESSING TECH ADDICTION

WITH NIKOLAJ HALKJAER PEDERSEN – SENIOR LEAD, HUMAN RIGHTS, PRI, DI RIFAI, FOUNDER AND CHAIR, CREATING FUTURE US, CARLOTA GARCIA-MANAS, HEAD OF CLIMATE TRANSITION AND ESG ENGAGEMENT, ROYAL LONDON ASSET MANAGEMENT

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Nikolaj Halkjaer Pedersen

Welcome to this episode in our series, spotlight on Human Rights. My name is Nikolaj Peterson and I'm part of the social issues team at the PRI. In 2020, the Netflix documentary social dilemma brought tech addiction to our attention. It revealed how overuse of social media by especially teenagers may be linked to rapidly growing rates of depression and suicide. So just how big is this problem? After years of strong growth, the so-called thanks stocks, the big five in tech were down on average 50% from their highs. Facebook announced layouts of 12,000 people last year, Twitter sacked 50% of its workforce. So, in order to understand their full risk profile, human rights are important factors, privacy issues, free speech concerns, exclusionary algorithms, and of course public health. So what is tech addiction? What are the effects on mental health? Why does it matter for investors? And what can we do to tackle it. For our discussion, I'm delighted to be joined by Di

Rifai, founder and chair of Creating Future US a not-for-profit organization with a focus on tech addiction and Carlota Garcia Manas, Head of climate transition and ESG engagement at Royal London Asset Management and an active voice on tech. Welcome.

Di Rifai

Thank you Nikolaj.

Carlota Garcia-Manas

Delighted to be here.

Nikolaj Halkjaer Pedersen

Di, please help us understand first, what is tech?

Di Rifai

I think probably most people have a pretty good idea because they use it so ubiquitously. I'll maybe back up a little bit and talk about tech in an investment context rather than just tech in our everyday lives. What's interesting I find time and time again is that most people who think about tech think of big tech and I'm putting that kind of a little bit in air quotes because that's kind of the face of the industry. But while these companies are large, they're still only a part of a much larger ecosystem and not least a massive number of companies digitalizing and implementing a wide range of technologies. So, when we talk about tech, it's much larger than just the big tech companies. This is where there's a little bit of a blind spot in the investment universe is that they think when they're investing, they're investing in these big tech companies and that's where change needs to happen and certainly change needs to happen there.

Di Rifai

But there is this larger ecosystem we need to be thinking about in terms of how we shift the dialogue on tech in general and tech addiction in particular. We at creating Future US have shifted from using this idea of tech ethics, which was where we started in this context of improving the insights and what we do in the engagement process, on tech into a term we now call RTII, which is responsible tech innovation and implementation because we feel that captures the entirety of that ecosystem. We don't just want to look at the innovators, we also look at all these people who are implementing technologies every day in that digitalizing process.

Nikolaj Halkjaer Pedersen

Like you said, take as many things. We all have a very personal relationship with technology of course as well. And just one fact I read was that the average mobile screen time is 4.8 hours per day. But I'm sure in your research you've seen a lot. What is sort of the most eye-opening finding?

Di Rifai

What shocked us probably the most when we were doing their research is just the sheer numbers of people affected by it and businesses, not just even people because we tend to think in consumer terms. The other thing that's actually quite shocking is the blatant externalization of societal and general economic costs. That's starkly reminiscent of what we discovered about climate change. As you are going down this road of researching this area, what you find is that wow, it's so prevalent and geez I thought we learned from this but hey here we are going through this whole externalization discovery again. So hopefully this time we stop the train or slow the train from leaving the station versus kind of where we are with climate change today. So just to give you some examples and you gave a very good one already, the average person touches their phone more than 2,600 times a day a day.

Di Rifai

Imagine touching anything else that much, right? Americans particularly scroll daily through 300 feet of mobile content that's equivalent of the Statue of Liberty. So, you're talking about massive amounts of information coming at people, right? In the social media sector alone, we now have about 60% of the population globally using it. Children particularly have been estimated a to spend 6 to 10 hours a day on screens. Basically, if you look at addiction percentages, it's anywhere from 10% to staggering 38% that we think may be suffering some sort of tech addiction and it's a much wider pool of internet users who are experiencing some level of compulsive behaviour online. So again we're back to what is addiction in technology terms and that's a whole other topic because actually it's very hard to determine it. There's no taxonomy around tech addiction in the traditional sense. Like when you look at substance abuse and alcoholism and things like where you've got much more established taxonomy. I think in gambling there is some, but everything else like social media addiction and gaming addiction, we have no taxonomy around that. So, it becomes pretty hard to actually say, you know, what numbers are therefore affected by this given taxonomy.

Nikolaj Halkjaer Pedersen

What do we actually know in terms of the effects? Can we say anything about it?

Di Rifai

The thing you discover doing this research is there's such a dearth of specialized research on this topic. There are holes in the research and the other thing you find is how many people are who are carrying out that research are independent parties, which kind of reminds you of the tobacco funded research back in the old days. And what you want to make sure is not only that there is good solid credible research but that it is independent as well. And when you take all of that into account, the pool of research is very, very limited and small. And the other thing you have is that tech is moving so fast and there's this increasing gamification of everything where every sector out there is thinking how do we gamify our products or our services or our offering. That whole gamification is becoming ever more sophisticated. As AI improves dramatically by its very nature, research is going to lag the reality because A, the technology is moving so fast but research has to wait until there's evidence. So there's always a lag. But with tech that lag is even bigger because of the speed of the tech. This is a real issue we're going to have to address is that evidence base is always lagging and increasingly lagging by quite a while because you have an exponential curve of absorption of the products but you're still kind of moving at a very linear pace with research.

Nikolaj Halkjaer Pedersen

Di, I just want to ask yeah if you could clarify this concept of gamification.

Di Rifai

So, gamification is this idea of how do you create what some people call the attention economy. How do you create more eyeballs? And this is again depending on your business model. If you are more of an advertising business model than you obviously are trying to get people to click and buy, the more time they spend on your platform, the more time they scroll, the more time they click, the more they engage, the more likely it is that they will purchase. And that translates to either advertising or sales revenue. Also, it's the idea now of everyone's trying to create communities and identity based engagement where even if your business model isn't advertising, you're trying to get people to engage with your brand and to absorb and see themselves as part of the community of your brand. And that means spending ever more time with you in your universe.

Di Rifai

And when that goes to the metaverse, then that's like the extreme version of that where you're embedded 3D into that universe and you're spending your time in their universe. And that is really concerning as you might imagine because it has so many implications in terms of there's this big fight for our attention and we are only human. So, the human brain has almost so much capacity to absorb and process and also to understand it's being almost manipulated like the wrap brain, the subconscious and how we can have all these things that appeal to our desire for status or our desire to feel safe. All these deep psychological desires that they tap into with these very sophisticated algos that are effectively just built to make us compulsive in our use. These companies basically hire thousands of behavioural scientists to figure us out and we as individuals have an asymmetry of knowledge and information in fighting that.

Nikolaj Halkjaer Pedersen

Interesting. So, I think we've established pretty well here the personal issue and Di obviously quoted some pretty staggering numbers. Carlota, why does this also matter for investors?

Carlota Garcia-Manas

Sure. So, at Royal London Asset Management we do a consultation with our clients every say two, three years. And the last two iterations clients are very clear, they are concerned about innovation and technology, they come up at one of our systematic priorities. I think the issue here is that we are all exposed as passive and active investors to technology and when we apply ESG considerations and we look at the explosive growth of some of those companies that started as a start-up, then they turn into a unicorn, then they turn into a listed company. It's not only the lack of understanding of potential risk and let alone what Di was saying about taxonomies, it's basically that we have a lack of regulation or other interventions. So, the lack of fines, lack of regulations, activities are even difficult to be classified in traditional sectors. So, it makes really the identification or realization of ESG risk to sudden. But as we see regulators catching up with this risk, like in the EU there is a focus on data privacy or illegal and harmful content or we are seeing a lot of interest in the US around antitrust or country security, Investors are basically, I am very concerned and grappling with this virus risk, regulatory, competitive, reputational operational or of talent attraction retention or layoffs, whatever you want to look at. We are basically concerns as investors that they are impacts on these companies and they may be impacts on their performance over time.

Nikolaj Halkjaer Pedersen

If I can just bring Di in on a question here before we continue Carlota, I picked up on what she mentioned about gamification and basically the intention to grab our attention. That's where the value perhaps lies in many of these companies. So, I just wonder if pie usage really is a source of profitability and addiction at the end of the day drives you is just like tobacco that you mentioned. Isn't there a dilemma here between investors looking for good growth proposition and then the issues we are discussing.

Di Rifai

There is obviously definitely something that one has to take into account. Look, I don't think this is a dilemma just for the tech industry. I think this is a dilemma facing investors that cause a whole range of investments and this idea where in the short-term investments look incredibly profitable but then when you look in the medium to long term, they create these externalities that we've discussed here that cannibalize these companies own future. So again, if you look at tech addiction, if you are endlessly addicting people at some point those people are not going to be functional people in society creating revenue that enables that addiction to be profitable for the companies that have created it. There has to be a balance there that these companies bring in if they are looking medium to long term, when people are short termist either investors or companies, they don't care about what happens in the medium to long term. And that's I think the bigger almost dilemma we face is how many people in society should be concerned with the short term versus who should be concerned with the medium and long term. We haven't really answered that question on climate change and we haven't answered it on tech either, but I think it's a greater meta question than just how it pertains to tech.

Nikolaj Halkjaer Pedersen

I'd like to hear your view on this as well Carlota because of course you mentioned that this is an issue for your clients, these are important holdings. You already mentioned regulatory risks among others, we know that there are risks. So how do you square this between your fiduciary duties and some of these negative effects that may come from addiction as one of the issues in tech.

Carlota Garcia-Manas

Basically, you look at this as externalities as this has mentioned, like any other externalities not addressing it now can potentially erode value later business that need a negative externality to thrive are by definition and sustainable. So, business that consider these externalities and find ways to position themselves for profit can pre-empt regulatory and consumer backlash and financial penalties. They can also attract profit, they can pre-empt regulation, they can prevent fines, they can also attract more informed customers for the long run, I think customers potentially like through social media becoming more savvy and assertive and while it may appear that curtailing some of those behaviours could erode profitability, we could also argue that in the long run the business that is pre-empting this concern is more likely to attract and retain customers while avoiding being the target of regulators or legal attacks or consumer boycotts.

Di Rifai

Can I just add, I so agree with what Carlota has said. We are increasingly living in a value driven stakeholder driven environment and let's not forget that a lot of companies are now very much living in the intangible balance sheet world where all of this digitalization and brand and IP creation is basically becoming the, you know the tail wagging the dog. We have so much more sensitivity in an intangibles based economy companies if they want to maintain value over time, you have to think about these long-term impacts to your brand and to your IP. Investors thinking and that sustainability model Carlota mentioned need to be thinking how is that that intangible value going to be affected and digged by these companies looking to cannibalize?

Nikolaj Halkjaer Pedersen

I like the simple definition of how companies are unsustainable if they're value creation basically in the medium to long term is based on externalities that we know are bad for societies. I'm very curious to hear Carlota because I know you've had some of these conversations with the tech industry. I'm very curious to hear what your experience is engaging with them.

Carlota Garcia-Manas

I wish I had better news here. It's at best mix, particularly what's turned big tech and in the US those companies appear to show up red election to engage just with the top shareholders. So top 20 shareholders, that's it. I think they have established a share structure that precludes open dialogue. On the other hand, we have very many useful conversations about technology with non-technology firms. We've been doing for several years now an engagement around cybersecurity and cybersecurity is a technology hidden risk or maybe two visible risks. But in that sense we have had a little bit more success while we have been successful on the cybersecurity with non-technology and we actually have been able to speak both as equity holders and bond holders. I think it's that exposure to a mix of geographies and sectors that permit us to have that conversation. So, I think on cybersecurity we've been successful because it was kind of a value chain issue and technology was considered a value chain. I think we have a long way to go to establish good meaningful conversations with tech.

Di Rifai

Can I just add something Nikolaj to this? We actually last year created a due diligence questionnaire for our investors that subscribed to our research basically and we've said look, this is a tool set they can use to try to start kind of surfacing the very issues that Carlotta's talking about. Not surprisingly, you find that what Carlotta said is absolutely spot on that those companies only engage with a certain number of investors that are large investors. What is interesting is how they choose to answer those questions, which ones they choose to answer. So, we are actually on a learning path because fast forward 12 months from now, once we've piloted this, I think we'll have some really good insights to answer that particular question, that experience with engaging with these technology companies and how responsive are they on a range of issues that are to do with this kind of concept of responsible tech innovation or implementation depending on who they are. So, we've actually identified implementers and innovators in this group that we're piloting the due diligence questionnaire with, but I think we'll have some good insights for you if we can revisit this in about 12 months from now.

Nikolaj Halkjaer Pedersen

I want to just touch a little bit more on one of the barriers that's often mentioned. You said that it's, there is a tradition of only engaging with the large shareholders and dual class share structures is often mentioned as a challenge. But Di can you explain this a little bit more to us?

Di Rifai

The dual class share, why do they exist? They exist because founders want control of their company When they go public, they want to steer the company without too much intrusion, without activist investors coming in and telling them how to better run their business because they are the ones who founded it and believe that they are better to run it ultimately. Now there is a big question mark there as to whether start-up founders are the best people to run a more medium to large size enterprise. There are lots of founders that aren't actually the right people to do that. They're very good at starting up companies but not at running them once they're past a certain stage of growth. It also depends on, you know, whether that founder is smart, they're long termist and they have the ethics to run their business a certain way. So, when you give that control, when they claim that desire for control, you have to believe that all that exists, or else as an investor you wouldn't want to give them that capability through the multi-class or dual class share structure. This gives basically a multiple of the economic share in terms of voting share to the founder and some of these founders can actually own none of the economic share of the company but have ultimate voting control over the direction of the company, which is a really interesting skin of the game question there because usually the idea of the connection between the two is one of the laws of governance.

Nikolaj Halkjaer Pedersen

There is a technical challenge here in Carlota. You mentioned before it's a bit of a mixed bag in terms of the progress we have made in this conversation, but do you have any recommendations to us in terms of how we can progress?

Di Rifai

Yeah, so we have been favouring for this particular areas collaborative engagement over individual engagement because we see the benefit that we get and the benefit that others get, particularly through a larger holding and direct presence in the jurisdictions where the company is based. So basically engage, co engage with that asset owner or asset manager that is sitting in the same country where these companies are. We also have found very useful to engage with regulators and policy makers that we end up influencing policy or regulation that we level the playing field for systemic issues, climate change as they has mentioned, but also technology and how some of these sectors have grown so rapidly. We find this can be very powerful and effective stewardship approach.

Nikolaj Halkjaer Pedersen

You mentioned before that the success we've had as an investment community in dialogue with tech companies has been mixed across different issues and that's I guess one of the challenges for us is that often these companies, tech addiction that we are discussing today is not the only issue. So, you could mention workers issues at Amazon or data breaches or spread of misinformation on Facebook, supply chain concerns that Apple, but as an investment community, how do we ensure that tech addiction receives the necessary attention as well?

Carlota Garcia-Manas

As many of the other ESG risks that we have discussed, the tech addition is another one of those ESG issues that did not surface at the same time as the profits of the companies that they provide the services. I think regulatory intervention is almost unavoidable, but I want to iterate something that Di has mentioned. I think education, research, information exchanges such as these podcasts and multi-stakeholder collaboration, so investors, academia, policy makers, civil society, can bring more visibility to issues like that were on action. The idea of getting clearer coastal links between tech exposure and mental health bring this more to the mainstream and then I think it will be very useful and much more visible for investors and other stakeholders.

Nikolaj Halkjaer Pedersen

And we hope of course. Yeah, today's podcast episode will bring a few more investors to look at this topic, do their own research and have some of these conversations. We touched on regulation a few times. Di I'd like to hear your view on it as well. What is the role that regulation can or should play here when we talk about tech and addiction?

Di Rifai

I would love to see regulators be a lot more involved but also a lot more nuanced about this. You know, the way that our current regulatory infrastructure was built was around an industrial age. So, we had these silos of regulators that came out to address certain issues within certain industries. So, you have the communication regulator, you have the competition regulator, you have the financial regulator, and yet when you look at tech companies, they kind of span all of that. So, you have this kind of discrepancy between regulators themselves, like who should be regulating which bets. And so we are a little on the back foot in dealing with some of this regulation, let alone the fact that you think about how long it takes to regulate because you have to start from laws have to be passed and then regulators interpret those laws. So, there's court action, you set precedent and then that precedent ends up leading to a fear amongst companies, let's say that they ought not to go in this direction or that direction.

Di Rifai

So, to create the incentive structure we're talking about and the disincentives here, you need to actually look at a much larger structure of do we have the right regulators in place working in tandem with each other at a pace that is required by tech. But I think what that opens up, that gap is not dissimilar to the gap we saw when we realized the externalities of climate long before regulators have come on board to climate, which is investors stepped into that, investors stepped in basically urging for best practices and asking for transparency and reporting around this stuff and they led the charge in effect for regulators. So, while I would love to think that regulators are the end all of the situation and they've got it in hand and they will fix all of this, I think we're a way from having cohesive global regulation.

Di Rifai

Don't forget this has to happen globally, let alone within the regulators of any given country. These tech companies are global companies, so who really regulates them? All these discrepancies within the regulatory system that ultimately lead to the inability as we've seen over the last 10 years for regulators to really step up and prevent things. They always seem to be kind of chasing ambulances and closing the door after the horse is bolted. This is why we are working so actively with people like Carlota who's amazing in thinking about these challenges. And I hope more investors end up thinking about this, is how can investors step into the breach and start almost having that self-regulatory conversation with companies before the regulation comes down hard because that is what will happen if regulators are on the back foot. They end up coming down hard and ends up costing and it's less flexible and that's not what any of us want as an outcome. We want nuanced regulation that's nimble, but to get there, we need to experiment first. And I hope self-regulation provides

Nikolaj Halkjaer Pedersen

It's an age old problem, the interrelationship between entrepreneurship, innovation and regulation of course. But I like the message that we shouldn't be sitting on hands in the interim. We actually have an opportunity here to have a positive influence as investors Carlota. If we were as lucky that any of the companies which we've been discussing today are actually listening, what would be your message to them? What is the response you would like to see from tech companies?

Carlota Garcia-Manas

A couple of takeaways would be, again, going back to the governance patterns that we have seen in other peers and other sectors. So, a little bit more structure, governance, the share structure and more standardized. I also would appreciate more investor dialogue and openness. I think that counters a little bit the concern of the regulatory constraints that he was talking about. I think investors can have very aligned visions of the future. I also think it could benefit if they collaborate amongst themselves and with other stakeholders. I think one, the industry acknowledges the responsibility and evaluates its impact. They can actually make provisions to address that issue via say, education or new technologies. And with those try to reduce or remove the impact they could have.

Nikolaj Halkjaer Pedersen

We discussed education, regulation, governance, change, various things investors can do to conclude that. Any missing ingredients that you'd like to flag?

Di Rifai

Not so much missing ingredients. I think we've covered pretty much most of the ingredients, but I'd say we're having billions of people using things in a wide range of use cases and we don't really know what the harms are of all of this. We are seeing lots of red flags on what these harms can be and how prevalent they can be. Again, that research piece, the numbers piece is missing. You know, that taxonomy piece is missing. The issue is that we have very few guardrails here. We are going gung-ho down this mountain, you know, at very high speed with very few guardrails. The key message here is how do we start to put some of those guardrails to slow this down so that regulators can catch up as in those right guardrails, not the really hard ones, but the soft ones. I hope like the work we're doing in terms of research and best practices and things like that is helping to kind of inform some of that really, there's just a lot more thinking that needs to happen around this, this, is kind of the kernel of the beginning of it.

Di Rifai

In order to understand how to best address this and let's accept that we're on a journey and that this journey is going to be a journey of change and of learning and we're going to get some things wrong like we did with climate change and we realize, oops, okay, we went too far here, not far enough there. The incentive structure was wrong here. The disincentives were right there. We're going to have to just experiment until we get it right. But that experimentation has to start now. The longer we wait to experiment, the harder that experiment outcome will be. So that's the learning from all of this.

Nikolaj Halkjaer Pedersen

I've certainly taken a few things away from our conversation today. I think it's fair to say that we don't know what the future of tech looks like and perhaps the only constant here is change despite the benefits that modern tech brings. We know that tech addiction is a human rights issue with global dimension and one that permeates, as Di mentioned, many sectors. There are concerns around the use of tech by children, which should be subject to higher levels of protection. And if the issue remains unaddressed, as we've discussed with negative health effects, rising harder, regulatory action is inevitable. So, it's crucial that investors pay attention, that we use our shared influence and voting power to drive good financial outcomes, not based on harmful business models to ensure that tech works in the interest of all of us ultimately. So Carlota and Di, thank you for fascinating conversation today and goodbye.