

ZERO-HOURS CONTRACTS



As responsible investors, we regularly see clients interested in our views on issues which can occupy remarkably grey ethical areas. This Expert Briefing picks up on a topic touched on in our 2017 Amity Insight, 'The Future of Work', and outlines our thoughts on **zero-hours contracts**, which have proved a contentious yet growing part of the so-called "gig economy"

WHAT ARE ZERO-HOURS CONTRACTS?

Zero-hours contracts (or 'ZHCs') are employment contracts which do not stipulate a minimum number of hours to be worked. Whilst the employee or worker has no obligation to accept any work offered, the employer is also not obliged to provide a minimum number of working hours. Their growing prevalence in the UK has sparked a highly charged debate about their supposed advantages and drawbacks.

WHEN DID THEY EMERGE AND WHY DO EMPLOYERS USE THEM?

Although they've only been hitting headlines with any regularity in the UK since 2013, ZHCs have actually been around for quite some time. In fact, their role (in form if not in name) in the Thames dockworkers' strike of 1889 has been widely cited in recent years. Most London dockworkers in the late-Victorian period were employed by a dock company or by a "ganger", with working hours fluctuating wildly by season and even day-to-day. The hourly rate of wages (usually 5 pence an hour) was supplemented by a piece-work system, an extra payment called the "plus". The "plus" was calculated on a tonnage basis but companies didn't disclose the scales on which the plus was based. In the late 1880s, as increased competition in the wharf business squeezed company profits, so the dockworkers bore the brunt of their economising, and the scales were revised downwards. Things came to a head in 1889, when the dockers struck in opposition to these exploitative terms of working, and the impact it was having on their wellbeing.

In the more recent past, ZHCs have also been a topic of debate in other developed countries. They exist in some EU states, but with varying degrees of regulatory oversight. In the Netherlands, for instance, strict legislation is in place to prevent abuse of the system and exploitation of employees. By contrast, New Zealand banned them outright in 2016, as a result of labour unions exerting pressure on the government.

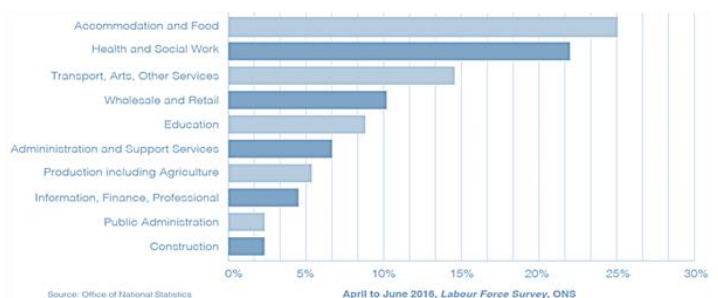
ZHCs essentially provide a way for employers to respond to short-term fluctuations in supply and demand in the labour market, and to minimise costs from paying workers whilst they

are under-employed. However, various studies conducted in the UK have highlighted other factors contributing to ZHCs' increasing pervasiveness. Alongside managing demand fluctuations, employers also seem to regard ZHCs as a means of providing flexibility for staff, avoiding agency fees, and retaining employees rather than making their positions redundant. These are typically the reasons cited by companies when the question of banning ZHCs arises.

WHO IS AFFECTED?

Despite the prevalence of this type of contract, reliable figures for the total number of people on ZHCs in the UK are difficult to find. In 2012, the UK's Office for National Statistics (ONS) put the figure at around 200,000; by contrast, the Chartered Institute of Personnel Development (CIPD) put the figure at a little over 1 million (or 3.1% of the total UK workforce) for the following year. These discrepancies can be explained in part by a growing awareness of ZHCs around 2012/13. Whichever figure is taken as the benchmark, it's clear that either (i) the number of ZHCs has grown substantially in recent years, or (ii) they are far more widespread than previously thought, and have hitherto gone unnoticed. The ONS – which is now more in line with other bodies – estimated that 1.8 million ZHCs were in force in the UK in 2017.

Given their specific benefits to employers and some employees, the use of ZHCs is naturally more widespread in certain sectors than others. Data from the EU suggests that part-time work contracts are concentrated in the retail, leisure & hospitality sectors, household activities (cleaning, cooking, etc.), and in the social care sector. This also appears to be the case for ZHCs – a specific form of part-time work – both in the UK and elsewhere.



Data also indicates that people on ZHCs are more likely to be young, women, students, or those in part-time employment. Their impacts extend beyond the employees themselves,

ZERO-HOURS CONTRACTS



however. For those with families or dependents, ZHCs may, by extension, have implications for the well-being and standard of living of other household members

WHAT ARE THE BENEFITS FOR THE EMPLOYEE?

There are undoubtedly people for whom ZHCs offer an attractive and flexible work option. For those who have little financial security concerns but would like some extra disposable income – students being one of the most frequently cited demographics – ZHCs can be very useful. It's possible, too, to turn down hours during busier times or holidays, and to make the random number of hours work within a more transient work-life balance.

For younger workers, taking on several ZHCs in different sectors may help them to determine which they are best suited to, as well as giving them a track-record of experience. A ZHC can also mean “getting a foot in the door”, leading to a permanent position with a company.

WHAT ARE THE DRAWBACKS?

“At worst, zero hours insecurity can be seen as a mirror of 19th century sweatshop practices – flexibility and low cost for employers – insecurity and in-work poverty for workers.”

*Edentree Investment Management
Amity Insight (2017): The Future of Work*

Certain labour unions, politicians, and other commentators have stressed the potentially negative impacts on physical and mental wellbeing for people employed on a ZHC basis. In particular, they highlight the contribution which a lack of guaranteed income can play in heightened levels of stress and anxiety, and add that many of those on ZHCs are the most financially vulnerable people in society.

Unfortunately, detailed studies on the psychological impacts of ZHCs are few and far between. Recent research seems to go some way to supporting an argument made by many: that ZHCs have a detrimental impact on a person's wellbeing. An oft-cited study conducted by University College London's Institute of Education in 2017 reported that 25-year-olds on ZHCs were 41% less likely to report having good physical health compared with those with secure contracts, and one-and-a-half times more likely to report having a mental health problem. An added stressor for some employees is that they report feeling under pressure to accept work, or risk future opportunities not being offered to them. Moreover, those on ZHCs do not have access to statutory benefits such as paid

holidays, sick pay or maternity pay, which would be available for an employee on a fixed contract.

But the research on health impacts is far from unanimous. A small 2017 study, for instance, found no statistically significant difference in the reported mental wellbeing of care workers on zero-hours contracts and those on fixed-hours contracts. The following year, however, the same researchers released a similar study which found that ZHCs were an additional stressor for domiciliary care workers, limiting their ability to plan either socially or financially.

Given that ZHCs affect a wide range of people and are utilised in numerous sectors, we have to be careful not to generalise from quite limited (either demographic- or sector-specific) studies. The potential risks are evident, but they are not universal for all ZHC employees.

ARE THE SUSTAINABLE DEVELOPMENT GOALS (SDGs) RELEVANT?



ZHCs are relevant to certain of the UN's Sustainable Development Goals (SDGs), principally **SDG 8: Decent Work and Economic Growth** and **SDG 10: Reduced Inequality** (as well as SDG 3: Good Health and Wellbeing). SDG 8 includes the target of “full and productive employment and decent work for all women and men, including for young people”, whilst SDG 10 speaks of “eliminating discriminatory...practices and promoting appropriate action in this regard”. Our view on ZHCs is strongly aligned with these ambitions.



ZERO-HOURS CONTRACTS



WHAT IS EDENTREE'S VIEW?

There is doubtless an argument that the financial uncertainty produced by ZHCs can be especially damaging to people's wellbeing, particularly for those lacking financial security. Moreover, there seems to be some agreement among mental health practitioners that a lack of structure in someone's life can have a cascading and detrimental impact on mental and physical wellbeing. That being said, there are clearly instances where ZHCs can provide a highly flexible and useful work option, provided they are mutually beneficial for both the employee and employer.

An outright ban on ZHCs might be a step too far, given that they work for some. Tighter regulation doubtless has a role to play, and we would welcome legislative moves to protect employees from exploitative business practices. Following the publication of the [Taylor Report](#) in the UK in 2017, some modest steps in this direction may be on the horizon.

WHAT IS EDENTREE DOING?

For Edentree, engagement with companies on topics such as ZHCs is key. To that end, we will continue to stress a company's duty to the communities and societies in which they operate, including their employees. Our recent engagement on the role and place of ZHCs has focused on the leisure/hospitality sector, as well as on social care providers. As per our 2017 *Amity Insight*, companies with business models that deliberately exploit individuals in terms of ZHCs may not be suitable for inclusion in the Amity funds.

Since they offer potential benefits to certain demographics, the mere use of ZHCs may not necessarily be viewed as a problem – it is the manner in which they are used that is crucial. We continue to work alongside initiatives such as the Living Wage Foundation and Share Action/Workforce Disclosure Initiative (WDI) to improve disclosure and business practices in this and related areas. The WDI, run in partnership with Oxfam, stresses that both companies and workers can benefit from creating better quality jobs – a belief which resonates strongly with these ambitions.

CASE STUDY

Case Study

**HOTEL
Chocolat.**

In 2017, as part of an annual employee survey, British chocolatier and cocoa grower Hotel Chocolat consulted their 240 employees on zero-hours contracts on whether they were happy with this arrangement. On finding that roughly half were satisfied, but the other half were not, the company offered permanent contracts with minimum set hours.

Engagement such as this is key to ensuring ZHCs work for both employee and employer; Hotel Chocolat's move is a good example of dialogue resulting in a mutually beneficial outcome.

Notes:

- i. ONS Business Survey / *The Guardian* (23 April 2018).
- ii. Wagner, J. & Schmid, G., 'Managing Social Risks of Non-Standard Employment in Europe', Conditions of Work and Employment Series 91, International Labour Office, Geneva 2017 / Eurostat, European Labour Force Survey.
- iii. Henderson, M., 'Economic Activity and Health – Initial Findings from the Next Steps Age 25 Sweep', UCL Institute of Education, 2017; as referenced in <https://www.theguardian.com/uk-news/2017/jul/05/zero-hours-contracts-affect-young-peoples-health-study-finds>.
- iv. Ravalier, J., Morton, R., Russell, L. & Fidalgo, A.R., "The influence of zero-hours contracts on care worker well-being", *Occupational Medicine*, Vol. 67, Issue 5, July 2017, pp.344–349 <https://doi.org/10.1093/occmed/kqx043>.
- v. Ibid., 'Zero-hour contracts and stress in UK domiciliary care workers', *Health and Social Care*, September 2018 <https://doi.org/10.1111/hsc.12652>.
- vi. Gabriel, P. & Harnois, G., "Mental Health and Work: Impact, Issues, and Good Practices", WHO / ILO, 2002

ZERO-HOURS CONTRACTS



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We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of Amity Funds. Headed up by Neville White, Head of RI Policy & Research, and supported by Responsible Investment Analysts Esmé van Herwijnen and Jon Mowll, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

We hope you enjoy this RI Expert Briefing and find it useful and informative. For any further information please contact us on 0800 011 3821 or at ifa@edentreeim.com