TAMING THE WILD WEST

BIG TECH'S SOCIAL RESPONSIBILITY

Andrew Cave, Head of Governance and Sustainability. Third Quarter 2019

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Cover Image: City lights at dusk overlooking Silicon Valley.

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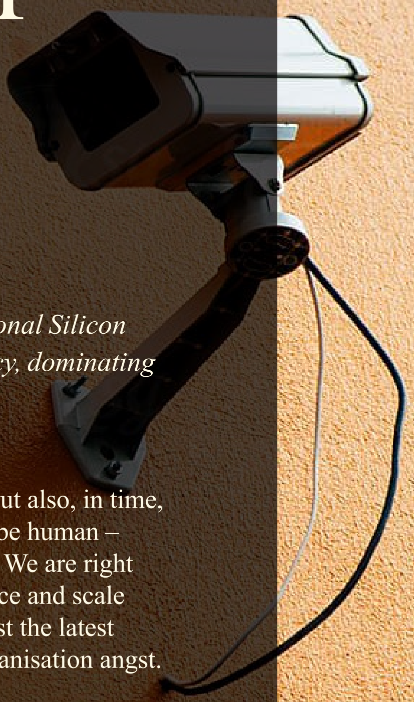
TAMING THE WILD WEST – BIG TECH'S SOCIAL RESPONSIBILITY



BY ANDREW CAVE

In the dystopian 2013 novel The Circle *college graduate Mae Holland joins a fictional Silicon Valley tech giant that has emerged as 'the winner' of the battle for online supremacy, dominating messaging, payments, social media and ecommerce.*

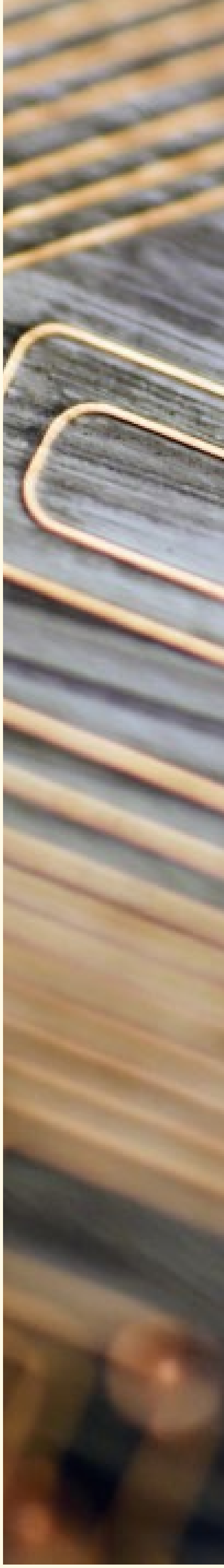
But behind the façade of smiling interns, kale smoothies and lunchtime jazz, the corporation is rapidly completing the circle, as it tightens its grip on every corner of life with ruthless efficiency. This culminates in the CEO's exhortation that "privacy is theft", as society is manipulated into allowing cameras into every aspect of once private lives.

The novel plays with our worst fears about the growing dominance of the technology sector. When I read *The Circle* I was suitably terrified. Re-watching *The Matrix* didn't provide much comfort either.

The rise of the platforms has also coincided with other technological developments which are set to disrupt not just the workplace but also, in time, our entire concept of what it is to be human – artificial learning and automation. We are right to be very thoughtful about the pace and scale of these changes, even if this is just the latest chapter in three centuries of mechanisation angst.

At the other extreme, tech evangelists continue to see a real world of connectivity deserts, deep human flaws and needless inefficiencies, ripe for further disruption, augmentation and improvement through technology.

I favour a more nuanced argument.



Perhaps a useful analogy for the tech sector today may be the widespread increase of car ownership after World War II, but before the advent of seat belts, driving instructors and breath tests: an amazing and affordable new technology brought unprecedented personal mobility and connectivity to the many for the first time. But until society figured out some important refinements, the huge advantages came at a significant social cost.

Those costs didn't stop the very rapid spread of cars, and nor will they stop the technology revolution that is happening around us. Digital technology is already woven into our lives in countless ways. There is no question that 'tech' is here to stay. With companies and countries racing to outdo each other in terms of innovation, the next decade will see even greater levels of connectivity, the rapid growth of ecommerce, and much higher utilisation of artificial intelligence. Facebook's digital currency 'Libra' announced in June heralds a new chapter in the development of the platforms.

However, despite, or perhaps because of, this stellar growth, big tech is more controversial than ever. But before we launch into the risks and issues confronting the sector, it is worth pausing to note just a few of the enormous benefits that technology has brought to society:

- Unprecedented access to information – before Wikipedia, acquiring knowledge was slow, expensive or banned in many parts of the world.
- Almost free global communications – this has in turn democratised the spread of information and opinion, and empowered civil society activism on a range of important issues.
- Technology has disrupted many sectors that were not always doing a great job for their customers, from banks and insurers to estate agents and utility providers.
- Technology has supported and enabled more diverse participation in the workforce.
- Technology can also bring isolated, disadvantaged or busy people together for mutual support and information sharing – think of the benefits of mumsnet to new parents.

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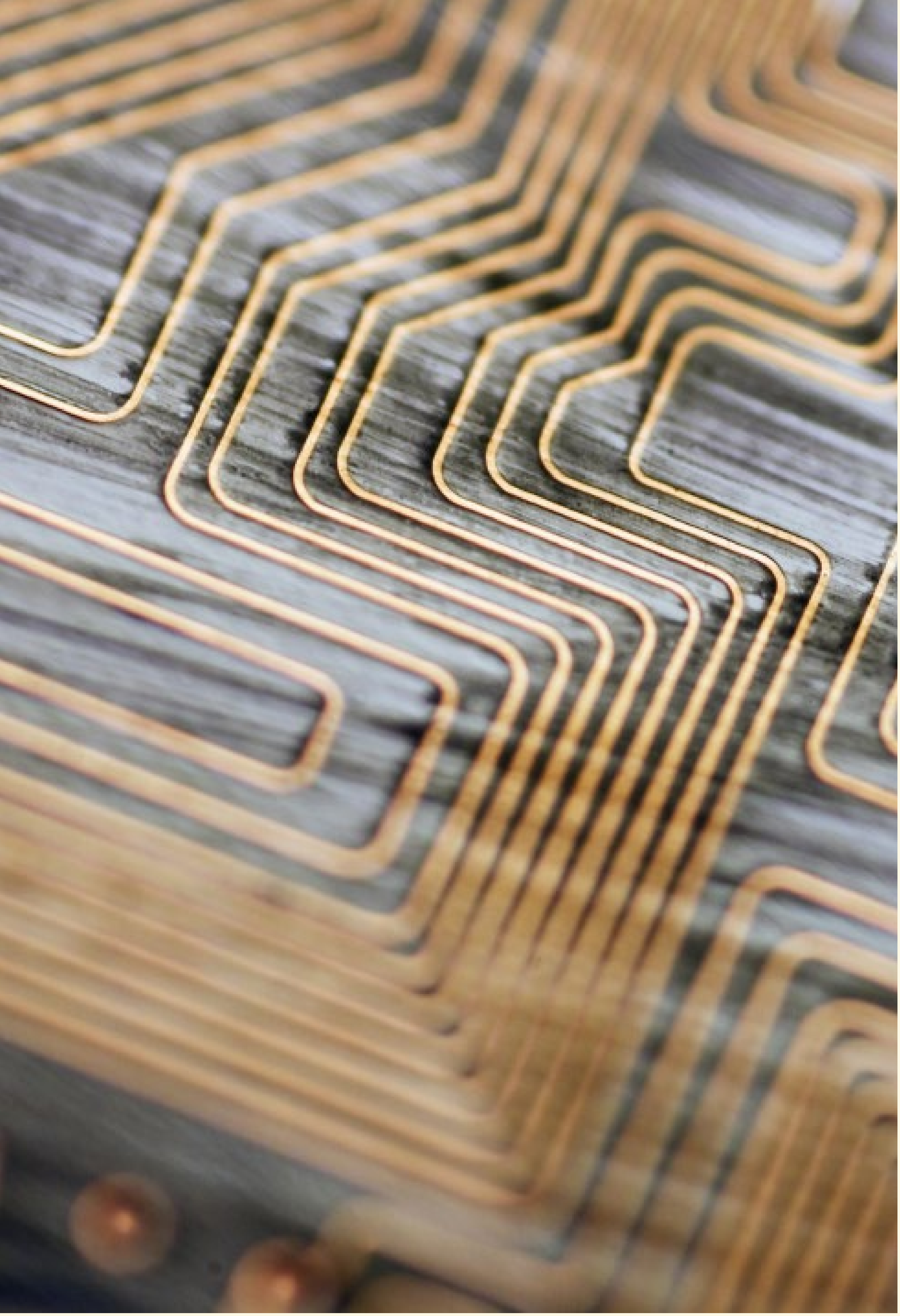


But there is also now increasingly widespread acceptance of the limitations and downsides of technology. As a parent of children heading towards the teenage years, I can find plenty to worry about. Let us consider some sobering facts about social media for example…

— Average daily screentime amongst UK teenagers has doubled in the last decade alone to over two hours.

— Life editing by selective posting on social media and image filtering is driving the illusion that everyone is happier, and more fulfilled than ever, despite growing evidence to the contrary. This particular aspect of social media appears to be contributing to increasing mental health problems amongst teenage girls in particular.

— There also appears to be a connection between increasing extremism and the known issue of the echo chamber effect of closed online communities of like-minded people spurring each other on.

We now know that just connecting people in the online world isn't necessarily a net positive for society. Take the recent conviction of two UK teenagers for posting extreme Nazi content online, or the live streamed shootings in New Zealand earlier this year. Did social media just expose this extremism, or aggravate and accentuate it? Although racist, sexist and homophobic views clearly predate 1990, we don't yet fully understand the impact of social media on these age-old problems, but we really need to find out. For these and other reasons, some of the well-intentioned early optimism of the platforms now looks naïve.

Themes can come and go in responsible investment but in the last few years, and in particular since the 2018 Cambridge Analytica scandal, the technology sector has come in to the spotlight like never before.

This was not an obvious trajectory even five years ago. Until very recently, technology companies were feted by development agencies as exactly the 'right sort' of company to set up shop in your jurisdiction: innovative 21st century businesses that employed high numbers of income tax paying professionals.

And unlike more obviously controversial sectors, technology started from a position of neutrality with regards to its core products. There is nothing inherently good or bad about messaging or search, just as there is nothing inherently good or bad about financial services or retailing.

In the early years, we were mesmerised by the new technology companies' amazing free products, their explosive growth and the audacious genius of their founders who first popularised the idea that it was actually smart to drop out of Ivy League education.

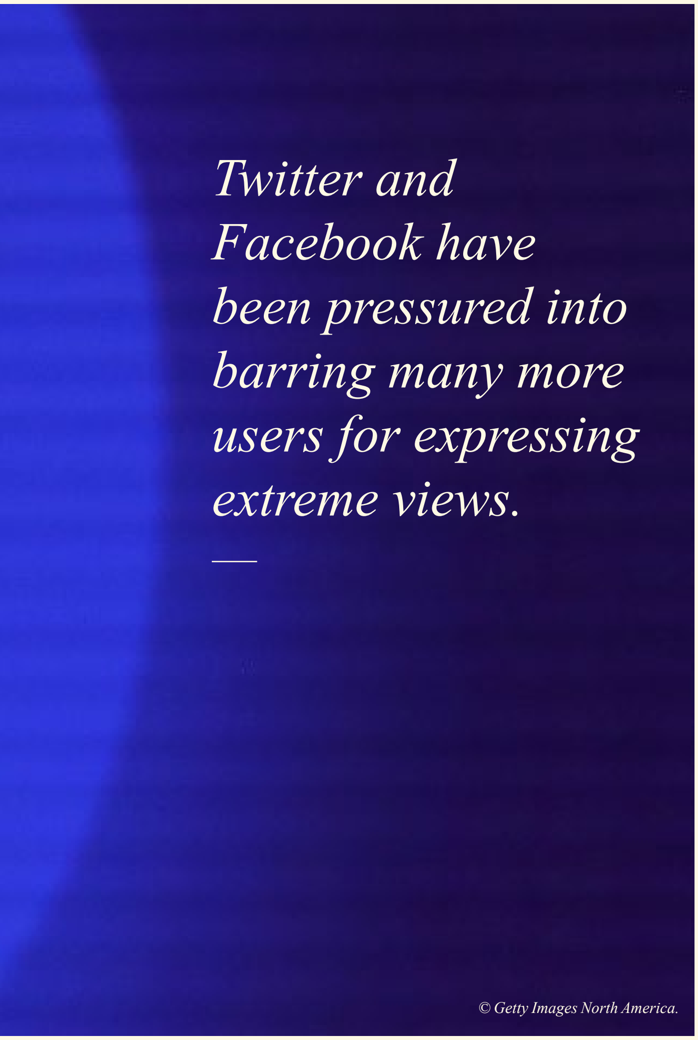
In less than 20 years, Google alone developed a remarkable seven products with over a billion users – Search, Gmail, Chrome, Maps, YouTube, Android, and Play Store. Facebook now has 2.4 billion monthly active users, making it easily the greatest communications platform in history. Amazon, a company that started life as an online book store as recently as 1994, now hosts highly sensitive data in the cloud for government agencies, healthcare providers and even the US military.

These are truly remarkable achievements, and most of us have benefited from the technology platforms' commercial success.

So, what burst the technology sector halo? Although privacy concerns were the tipping point, disquiet about a wide range of issues had been growing for many years – market power and anti-competitive practices, and data security breaches. Mounting concerns about interference in the US presidential elections and the UK referendums stoked tensions further, and aggressive tax optimisation, sexual harassment cases and other employee issues have further tarnished the image of the sector.

Tim Berners-Lee, the inventor of the web, cited many concerns about the internet of today in a recent open letter. To quote just one:

"The web that many connected to years ago is not what new users will find today. What was once a rich selection of blogs and websites has been compressed under the powerful weight of a few dominant platforms. This concentration of power creates a new set of gatekeepers, allowing a handful of platforms to control which ideas and opinions are seen and shared."



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Understandably the tech sector is now under unprecedented scrutiny, with US and European authorities lining up to initiate anti-trust proceedings in the years ahead.

But, in my view, all of these issues are eminently fixable, through better regulation and improved governance. A much more complicated emerging challenge is what I call ‘content stewardship’.

In the early days of the internet, there was a working assumption that the new platform companies were not responsible for the accuracy, quality and appropriateness of the content on their sites, be that news, opinions or products. This was elevated to a philosophy, with a prevailing view that the internet should be open and free from any censorship, controls or moderation from either governments or corporations.

The idea that different social rules prevailed online held until surprisingly recently, but the last few years has seen some remarkable forced reversals of this position:

— Instagram has been pressured into addressing self-harm and eating disorder images on the site, following a highly publicised teen suicide case in the UK.

— Twitter and Facebook have been pressured into barring many more users for expressing extreme views.

— The UK takeaway food delivery platform Just Eat has pledged to delist food outlets with lower hygiene ratings.

— Airbnb has committed to addressing the issues of racial ‘guest profiling’ by property owners on the platform.

And it’s not just in the West:

— Chinese gaming giant Tencent introduced playing time restrictions for young players in response to concerns about its hit game ‘Honour of Kings’.

— Baidu has been forced to address the issue of adverts for questionable medical products and procedures.

These changes have clearly been prompted by the threat of regulation and efforts to stay ahead of changing public opinion, but they are remarkable nonetheless. Content Stewardship is at its most difficult when content is legal but controversial or distasteful, at least to some. The very idea of stepping in to moderate content, and the need for armies of people as well as artificial intelligence, makes content stewardship an enormous challenge for technology platforms.

They are now working to address the relevant issues in their business models, but the challenge may be just too difficult for the platforms to solve on their own.

Remarkably, Facebook's Head of Global Affairs, Nick Clegg, has called for a new oversight body to have the final say on content moderation considerations.

And who knows how this might develop from here?

- Would we really want a content moderation team at Google to filter our search results for appropriateness, or a Facebook algorithm to decide which political ads we should see based on whether they are balanced and reasonable?
- When does contrarian or minority opinion get blocked as fake news?
- Should takeaway platforms be forced to take responsibility for healthy eating amongst their regular customers?
- Should Amazon stop selling inefficient tumble dryers, and will Skyscanner be expected to optimise for carbon efficiency rather than price in the future?

Given these fundamental challenges for the sector, we very much factor social-licence to operate considerations into our investment decisions and we are engaging with our technology holdings to ensure that management teams are fully addressing the rapidly evolving challenges.

But every platform is different, and some business models are much more suited to the new post-halo operating environment. Netflix's subscription model for example looks better placed than advertising-dependent platforms. Facebook's recent pivot towards private content, lifestyle groups and online currency transactions is being driven by these considerations.

Unsurprisingly, Facebook has been at the centre of the political and regulatory attention. As a firm, our investment staff have engaged with Facebook extensively over a number of years and have discussed its evolving privacy and content challenges along their journey. There is a consensus, shared by the company's management, that Facebook made some significant errors along the way in its rush to monetise the business which it is now working hard to address.

We have also had recent engagements with Amazon on content stewardship, focusing on the proliferation of fake customer reviews on its platform. We have engaged with Alphabet on YouTube content controls for children, and with Alibaba on combatting counterfeit goods. All of these companies are investing to stay ahead of the content stewardship challenge in the years ahead.

It has taken three decades, but we are finally beginning to come to terms with the advent of big technology. Still waking up to the power and reach of the platforms, society's expectations will only continue to grow.

And rightly or wrongly, we increasingly hold big tech to higher standards – we never expected Royal Mail or BT Broadband to monitor or moderate the communications that they transmit, but some now expect this of big tech even for private messaging.

And we are, of course, at times contradictory, wanting both free speech and content moderation, or enhanced privacy in tandem with better efforts to address criminality in the online world. And what more will we expect in return for the right to run a new global currency?

Until recently, data privacy has been seen to be the defining issue for the sector, but privacy will in time be addressed by clearer regulation, better education and user consent. The much bigger challenge for the sector will be to respond to calls to ensure that content is socially responsible and appropriate, in a complex and ever evolving world of diverse views and polarising political opinion.

All of this new-found circumspection is part of the coming of age for the technology platforms, but it may actually strengthen the position of the incumbents if they can adapt accordingly. With power must come responsibility, and the corporate governance of the platforms will also need to evolve in time.

But we must remember to focus on the positive potential for digital technology in the years ahead:

— AI connected devices and sensors are already greatly improving resource efficiency, in a world that really needs resource efficiency. It may well be that we actually need much greater connectivity to combat our growing environmental challenges. How much more efficiently might AI run London's rush hour for example?

— Personal data monitoring is already improving healthcare, and may help many more elderly people to live independently in the future.

— Globalised social media interaction may in the long term be the best way to reduce cultural divisions and address narrow populism, whilst galvanising international action on climate change.

— And, with crime rates back on the rise, can we be sure that we can responsibly rule out the potential applications of AI and facial recognition to assist our police, with the appropriate checks and balances?

For responsible investors, big tech isn't like tobacco, or even fossil fuels, both of which are set to become niche and discretionary products over time. We all use technology products every day, and we have probably used our smartphone a dozen times already this morning.

Despite our misgivings, technology is set to be ever present in the future. We fret about AI and surveillance, but we have welcomed Alexa into our living rooms and given her a chair with comparatively little fuss.

Commercially successful tech businesses will continue to be funded, entirely privately if need be, and increasing regulation or even break up won't put the genie avatar back in the virtual bottle. In this situation, divestment cannot be the answer for those with concerns: we all want technology that works for humans and society, but if we care about ethics in technology, we should continue to own these stocks, vote our shares thoughtfully and vigorously engage with management, and contribute to the public research and debate on the most important and pressing issues.

Some level of personal and parental responsibility must also make a much-needed comeback in the great tech responsibility debate if our relationship with the sector is to be truly fair and balanced.

To finish where I started with the post-war automobile analogy, with half the world now connected to the online superhighway, we all need to collectively engage with the challenge of establishing the appropriate social conventions that will ensure the right balance of utility, ethics and safety in the online world in the decades ahead.

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Andrew joined Baillie Gifford as Head of Governance and Sustainability in May 2015. Andrew graduated from London's School of Oriental and African Studies (SOAS) with an MSc in International Development in 2001, after receiving an MA in History at the University of Edinburgh in 1999. He has subsequently obtained a Postgraduate Diploma in Sustainable Business from the University of Cambridge. In his previous role as Chief Sustainability Officer for RBS he was responsible for helping to rebuild RBS's approach to corporate responsibility after the financial crisis. He is a member of the Financial Reporting Council's Investor Advisory Group and is a former Chairman of the UK Global Compact Network. Andrew is a member of the Global Stewardship Portfolio Construction Group.

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