

The Employee Voice in the Boardroom

2020

The July 2018 version of the UK Corporate Governance Code required that all premium listed UK companies (in relation to accounting periods beginning on or after 1 January 2019) should ‘understand the views of the company’s other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making.’ Specifically, the Code states that:

‘For engagement with the workforce, one or a combination of the following methods should be used:

- a director appointed from the workforce;
- a formal workforce advisory panel;
- a designated non-executive director.’

In **February** and **April 2020** Ridgeway Partners hosted two events to explore how UK companies are responding to this requirement and to debate the relative merits of the different approaches companies are taking. This paper summarises the findings.

CONTEXT

As of March 2020 58 FTSE 350 companies had a publicly identifiable Designated Non Executive Director, i.e. someone taking or sharing the lead role in this initiative. Of these, 16 were in the FTSE 100 and 42 in the FTSE 250.

N.B. The number of identifiable, designated NEDs will increase as details are published in company annual reports.

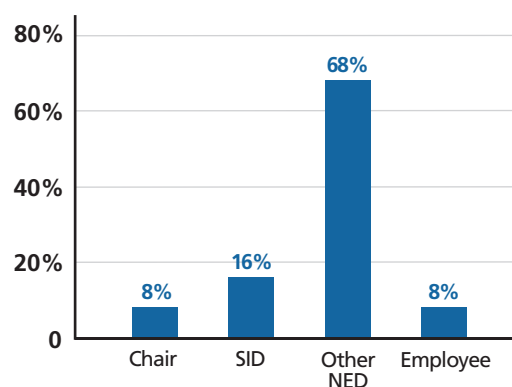
Four companies had more than one designated NED (Capita, Genus, Man Group, UDG Healthcare). Three people were the designated NED at more

than one company. The following analysis is based on the 62 designated NED roles in the 58 companies.

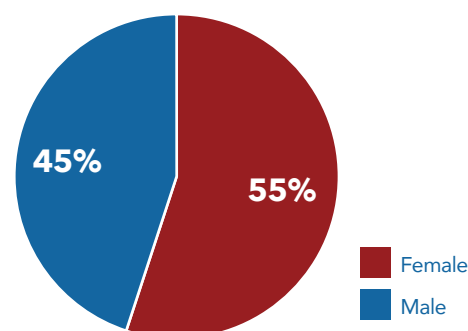
A quarter of the designated NEDs were the company Chair or SID, the others being NEDs of the company.

Just over half of the designated NEDs (55%) were female. This compares to 37% of all FTSE 100 and 250 NEDs (as at 19 February 2020). Their mean age was 59, similar to the mean age of all FTSE 100 and 250 NEDs (60).

Role of Designated NED



Gender



Base: 62 Designated NED roles. All data sourced 18 March 2020 from BoardEx: The Board & Management Intelligence tool.

The observations on the following pages are based on the discussion at our events among some of these 62, all of whom were independent NEDs.

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STATUS AND TOOLS EMPLOYED

Most of the participants were still in the relatively **early stages** of understanding what does and doesn't work for their organisation. Most had been appointed in the last few months due to the company's accounting period; only one reported that their company had chosen to 'go early' on this requirement.

Most reported that they rely on a **range of tools** (both top down and bottom up) to get a picture of their employees' views and wellbeing (see table below). Many of these were in place and being scrutinised at board level before the implementation of the new Code requirement.

Tools Used

- Annual and pulse surveys
- Town halls and Q&A sessions
- Employee panels, forums and networks
- European Works Councils and union structures
- Site visits and shadowing
- Dinners, listening groups and other events bringing board members and employees into direct contact
- NPS data
- Turnover and absenteeism rates
- Exit interview data
- Whistleblowing data

MAKING THE MOST OF EMPLOYEE ENGAGEMENT

It was agreed that the **tools used are likely to vary from company to company**, taking into account its geographic footprint, number of employees, industry, culture and employee working preferences. For example, in a data driven technology company, employees felt more comfortable responding in a virtual forum than face-to-face.

Some reported that their company has a longstanding policy for non executive directors to spend time shadowing employees at 'shop floor' level. It was noted that the task of gaining an accurate picture of employees' views is harder in a global company or conglomerate, where there is no such thing as a universally held employee view.

It was generally agreed that it is important to **use forums that already exist if possible**:

"Don't reinvent the wheel and create extra work for the executive unless you need to."

It was universally agreed that it is important to mix data with more nuanced impressions gained from face-to-face interactions and there was wariness of **too much of a data driven approach**:

"Lots of data can make people miss the point – how can we leverage data to make our engagement better?"

In terms of reporting structures, most had a non-board committee or panel, which could comprise of a combination of employees, executive and non executive directors, which meets regularly. Feedback from the designated NED is either a standing or regular agenda item at the board.

One benefit of face-to-face engagements, such as dinners, is enabling a company board (typically aged 50+) to understand better how its **millennial** workforce sees the world. These engagements may be held with or without executive directors present. Creating a **'safe space'** is crucial to being able to solicit real employee feedback. Partnering effectively with the **HR Director** of the company was also important.

Attendees noted that their work as a designated NED had given "additional colour" to their understanding of their company's workforce, but had not brought any material new understandings to the table.

UNIONS AND EMPLOYEE DIRECTORS

Those whose company operates in a **unionised environment** reported that their company had not considered adding a union representative to the board and indeed they had noted no appetite from their unions for this. A number of participants had experience of direct employee representation on boards

through their work as directors of non UK companies. They reported mixed experiences of this model, as they had found that the employee directors were often not able to contribute as a fully fledged director across the whole board agenda.

IMPACT ON EMPLOYEES

A framework to report back to the employees was seen to build trust:

“Employees feel heard and want to hear more from the board about what it’s thinking, including difficult messages”.

Employees involved in direct interaction with the board gain a **better understanding** of the role of the board and the governance of the company.

Employees consulted had expressed little interest in the topic of board remuneration except to want to understand that their company pays enough to attract the best leadership. Some participants felt it was important to keep the explanation of remuneration policy at employee forums explicitly separate from the work of the remuneration committee. For this reason, some felt that the designated NED role and the remuneration committee chair role should not be performed by the same person.

NED WORKLOAD

The role has involved a meaningful increase in workload for most, with an extra **four days** per annum being the absolute minimum. Some, but not all, were receiving a ‘top up’ fee for having taken on the role, some at the same level as a committee chair.

In Conclusion

Two unanimous conclusions were that:

*There cannot be a fixed template for how to fulfil this requirement. All companies are different and we are in a necessary period of discovery as to what works well and what doesn’t. **Evolution is inevitable.***

*“This should be a **team sport**”, i.e. having one non executive designated in this role is not really honouring the spirit of the initiative. It was suggested that the role should either be rotated regularly, or be a shared or whole board responsibility.*

Being the designated NED was seen as a good job for a **new NED** joining a board, as it enables them to get under the skin of the company more quickly. However, those NEDs taking a lead on employee representation need to remain clear that they are not an executive of the company – this is a role whose remit could easily stray over the executive/non executive divide, if allowed to.

Given the time requirement, it was felt inevitable that the role would mostly be the domain of **plural/portfolio NEDs** (i.e. those who do not have a full-time executive role elsewhere). Some noted that the chair of the board is a natural fit for the role, as their role means that they have a greater level of interaction across the business than other NEDs do. Others felt that a director with an HR background is an ideal fit, given their pre-existing professional skillset in employee engagement.

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