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Workforce Engagement and the UK Corporate Governance Code: A Review of Company Reporting and Practice

Royal Holloway,
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Involvement and
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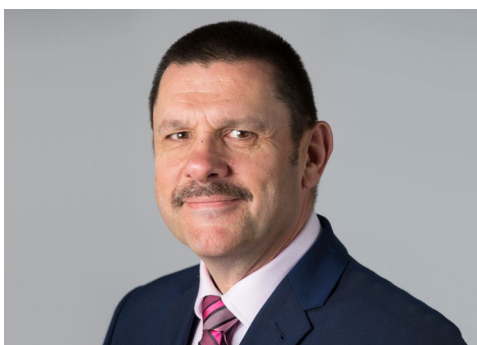
Not our views

The FRC does not express any opinions on the matters addressed. The views expressed in the report are those of the authors.

Contents

Foreword	4
Executive Summary	5
Introduction	8
Background	8
About this report	9
Responses to the Revised Code	10
Summary	10
Reaching the decision	11
Designated Non-executive directors	12
Advisory panels	17
Alternative arrangements	22
Worker directors	26
Reflections on the choice of approach	30
Key Themes in Workforce Engagement	32
Operation and substance of workforce engagement at board level	32
Links with other workforce engagement policies and practices	37
Links with forms of collective employee voice and representation	38
Outcomes and impact of board-level workforce engagement	40
Dialogue and feedback around workforce engagement	42
Ongoing developments	44
Conclusions	46
Principles of good practice in workforce engagement	46
Reflections on the purpose of workforce engagement and the challenges ahead	48
Appendix	51
Methodology	51
References	54

Foreword



Sir Jonathan Thompson
Chief Executive Officer,
Financial Reporting Council

A company's workforce is one of its most important assets, producing and delivering goods and services on behalf of the company and supporting the company's operations. More often than not it is the workforce that will have first-hand knowledge about how the company is performing. The workforce also has direct contact with a wide range of other company stakeholders, such as suppliers and customers.

A company's directors can have much to learn from its workforce, which can contribute to setting strategy, governance and long-term success. This is why the 2018 Corporate Governance Code specifically refers to the role of the workforce and promotes their involvement in company governance.

The purpose of this research was to find out more about how the Code is working in this respect: how the new Principles and Provisions are being applied in practice and what effect this is having in the boardroom in terms of decision-making. Inevitably, these are early days. Putting in place or developing workforce engagement mechanisms, generating a feedback loop and seeing the overall results takes time.

Nevertheless, a positive picture is emerging. It is clear that companies are taking action and there are some good examples of productive engagement. This report highlights some good practice and also offers suggestions as to how improvements could be made to improve engagement.

The Code is, of course, a flexible tool that respects companies' different circumstances. In future years the FRC would like to see better reporting in how companies have used this flexibility. Workforce engagement can offer valuable insight for boards, but to maximise the benefits boards must be clear about what is it they are trying to understand from the engagement. What is the best way of engaging? Will the development of existing mechanisms be sufficient, or are new methods needed? For example, many companies have chosen to use an independent non-executive director as the main means of contact. But the reasons for this, and how effective this is in practice, are not always clear.

Ultimately, the main goal is a better-performing company. I hope this research will stimulate further conversations and understanding of workforce engagement. I look forward to reading improved reporting about how workforce engagement is considered by directors and the resulting impact on board decision-making.

A handwritten signature in black ink that reads "Jonathan Thompson". The signature is written in a cursive style with a horizontal line underneath it.

Executive Summary

‘In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.’

UK Corporate Governance Code, Principle D

This report aims to provide a deeper understanding of the current intersection of corporate governance with employee voice, in the light of requirements in the 2018 Corporate Governance Code for boards to ensure effective workforce engagement. Through analysis of company reports, a survey of FTSE 350 firms, and a series of interviews with directors, executives and workforce representatives, we explore the approaches firms have taken to providing a workforce voice in the boardroom, why different approaches have been chosen, what these changes have meant in practice and how effective they have been from both a management and workforce perspective.

Of the three core options for workforce engagement in the revised Corporate Governance Code – a worker director, designated non-executive director (NED) and advisory panel – 68% of firms in our sample have adopted one or more of these as a direct consequence of the Code (40% have appointed a designated NED, 12% have established an advisory panel and 16% have combined an advisory panel with a designated NED). Only one company was found to have appointed a worker director following the issuance of the revised Code, adding to the four FTSE 350 firms with worker directors that pre-date the Code. The remaining 32% of FTSE 350 firms we examined have not adopted any of the three suggested options, instead either choosing to adopt ‘alternative arrangements’ – which are permitted by the Code – or claiming that their existing engagement mechanisms are adequate to satisfy the Code’s requirements. While some of this group have long-standing and effective structures for workforce engagement developed over several years, others rely heavily on staff surveys combined with ad hoc forms of informal engagement such as site visits.

Advisory panels, many of which are newly created bodies, provide some examples of innovation. These bodies take a range of forms, have a variety of names, are sometimes elected by workers, but are more often appointed by managers. Some panels consist of trade union representatives, while others exist in parallel to union structures. They discuss a wide variety of issues, which are commonly relayed to the board via either a senior executive or a designated NED. For firms without panels and relying solely on designated NEDs, there is often some ambiguity regarding the role of these NEDs and how they should interface with existing engagement structures. Some NEDs were put in charge of analysing the staff survey, others held a series of focus groups, while some appeared unclear what their role should be, were disconnected from other engagement programmes and appeared to have few formal ways of actually engaging with the workforce. The few examples of worker directors offer valuable lessons that confirm this approach is not incompatible with the UK corporate governance framework. Worker directors played a valuable role in the firms we looked at, engaging fully in board deliberations and discharging their legal duties without issue, as well as honouring the trust placed in them with confidential information. That said, there are differences of experience between worker directors aiming to bring the views of the whole workforce to the board and those seen as there to provide only an individual worker perspective.

For most firms, their current position on workforce engagement represents more of an evolution of existing practices than a revolution in approach. In some cases this makes sense where there are strong foundations to build on, such as existing staff forums or works councils. Other firms, however, appear to have taken the path of least resistance and done little to develop even rudimentary workforce engagement mechanisms, other than an annual staff survey. Most firms do not rely solely on a single channel of engagement, but have at least two or three, usually including a staff survey and other HR engagement work, and often consultation with trade unions as well. In some firms there is excellent coordination and formalised relationships between these channels, while in others there is far less integration and even some conflict between approaches. Collective bargaining and consultation with trade unions can complement board-level employee voice, but the two channels remain distinct and neither should be used as cover for lack of the other.

In the vast majority of cases, decisions on approaches to workforce engagement were made by the board without consultation with the workforce. There were also significant gaps in reporting around what the outcomes or impact of workforce engagement had been for most firms. That said, it is important to note that many of these arrangements are still in their infancy. Those firms with more mature, long-standing practices have been able to embed these into their culture and processes, while new arrangements established in response to the Code might still be experiencing teething problems. The more pragmatic firms are taking the time to reflect and learn lessons after the first year or two of practice and making adjustments to the way their voice mechanisms work. There is a great deal that firms could learn from one another in terms of best practice. The key lessons we suggest firms give particular thought to, which we elaborate upon throughout the report and present in more detail in the conclusions, include:

- Representativeness and breadth of coverage – ensuring that the employee voice reflects the geography and demography of the workforce.
- Depth of coverage is also crucial – properly integrating different engagement and voice channels with each other, including collective forms of employee representation.
- Providing for regular and structured input from the workforce, especially during periods of rapid change.
- Workforce representatives, whether sitting on a panel or as worker directors, should be chosen with some input from the workforce.
- Energies should be focused principally on the substance of workforce engagement, not the process.
- Agenda setting is best when there is a balance between topics of management interest and topics of workforce interest.
- A meaningful dialogue with the workforce also requires an effective feedback loop, based on informed employee voice.

To really make workforce engagement effective, boards first need to properly reflect on the purpose they want that engagement to serve. Are they looking for a sounding board for proposals, a greater diversity of viewpoints, a channel to raise workforce concerns, or to shift the purpose and values of the company in a new direction? The principled and practical arguments for a greater workforce voice in corporate governance are now stronger than ever. Calls for a shift away from shareholder primacy and towards more responsible, long-term and stakeholder-oriented business models have now become mainstream.

The COVID-19 pandemic has intensified these concerns, with many arguing that any long-term recovery strategy must be premised upon working towards a more inclusive and sustainable economy, with greater resilience for the future. It is disappointing, in this context, that so many FTSE 350 annual reports still appear to downplay the importance of workforce engagement, in many cases relegating it to boilerplate language in a formulaic table of stakeholders. Yet it is also encouraging to see a great deal of innovation and fresh thinking in this area, as exemplified by the pockets of good practice in our case study firms. Our research has revealed real progress, but also continued resistance and scepticism. We hope this report can contribute some valuable insights to current debates around corporate governance reform and help drive greater workforce engagement across UK businesses.

Introduction

Background

‘If I’m prime minister... we’re going to have not just consumers represented on company boards but employees as well’.¹ These words, spoken by Theresa May in July 2016 as part of her successful Conservative Party leadership bid, built upon a renewed interest in expanding the voice of workers in UK corporate governance. Not since the Bullock Report of the 1970s had a UK government so explicitly advocated for greater worker voice in company boardrooms. Over the five years since, the broader stakeholder agenda has become increasingly central to debates on corporate governance reform, with demands from many quarters for companies to take far greater account of the interests of consumers, suppliers, the environment and local communities, as well as their employees.²

‘The case for board-level worker voice is not only one of fairness and democracy but also reflects a strong economic rationale.’

Workers are an essential stakeholder for any business. Indeed, in a very real sense a company consists of the people who make it up. It is therefore vital that board members are exposed to the concerns and ideas of the workforce and are able to consider these as they relate to company culture and strategy. Workers are likely to have a longer-term commitment to the success of companies than many other stakeholders, and a greater role for employee voice can encourage boards to consider a company’s long-term interests over short-term quarterly returns. Employee representatives are also able to disrupt ‘group think’ within the boardroom, which has been associated with the collapse of a number of high-profile firms in recent years. The case for board-level worker voice is not only one of fairness and democracy, but also reflects a strong economic rationale. The interests of workers are well correlated with long-term company success, and countries with strong worker participation rights and practices (on board representation, workplace representation and collective bargaining) score more highly than other countries over a range of economic and employment measures.³ Moreover, there is extensive evidence that employee participation during restructuring can operate as a ‘beneficial constraint’ on senior managers, promoting productivity and profitability rather than short-term cost cutting and shedding labour.⁴

While initial commentary on Theresa May’s suggestions focused on the possibility of a formal requirement for worker directors in all major companies, the proposals that eventually found their way into the Conservative Party manifesto of 2017 offered a much broader package of options for firms to consider. A number of important regulatory changes followed. The Companies (Miscellaneous Reporting) Regulations 2018 introduced, among other things, a requirement for pay ratio reporting and strengthened the reporting requirements around section 172 of the Companies Act 2006 relating to how directors give regard to the interests of employees and other stakeholders. The focus of this report are the revised provisions in the Financial Reporting Council’s 2018 UK Corporate Governance Code (hereafter ‘the Code’), which state that companies should ensure they have effective engagement mechanisms to help them understand the views of key stakeholders.⁵

Specifically, Provision 5 of the new Code states:

‘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.

If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.’

Here, the Code suggests a range of different approaches to facilitate workforce engagement which companies may choose from, or combine, with the details of how these arrangements should work left to firms' discretion. A company may also use an alternative approach if it is able to articulate the reason for doing so and explain how this alternative is effective for its particular circumstances.

About this report

The new Code applied to accounting periods beginning on or after 1 January 2019, and 2020 therefore saw the first full year of annual reports under the new governance rules. This report aims to shed light on the following questions:

1. Why did companies choose their particular approach(es), and what did they base this choice on?
2. How have the chosen approaches been operationalised by different companies?
3. To what extent, after a year or more of employing the approaches, have effective outcomes been achieved both for the company and its employees?

To answer these questions, we used a combination of qualitative and quantitative methods, focusing on firms in the FTSE 350, though many of the lessons of the study should be generalisable to other large companies. We collected original data from a wide range of firms and the report contextualises company approaches within the broader regulatory framework in the UK, with the aim of drawing out implications for best practice in this area. The project progressed through three stages of enquiry – labelled A, B and C. Stage A was an examination of all FTSE 350 annual reports, stage B a survey of FTSE 350 firms and stage C a series of 'deep dives' to consider arrangements at 17 selected firms in more detail. This entailed interviews with those closely related to the workforce engagement process (e.g. HR directors, NEDs, company secretaries and workforce representatives). More details on our methodology can be found in the Appendix.

The first half of this report provides an overview of FTSE 350 firms' responses to the Code – how many firms report adopting each of the different approaches, how they reached that decision and what those arrangements look like in practice. The second half offers an analysis of several key themes that cut across the different models of engagement, such as: what are the outcomes for workers and the company; how can firms ensure a meaningful dialogue with the workforce; and how well do these arrangements align with existing workforce engagement practices and employee representation structures?

Throughout the report we aim to highlight approaches to workforce engagement that might be considered to represent 'best practice'. This is not to suggest, however, that most FTSE 350 firms are currently demonstrating such good practice in this area. While every firm will need to choose its own approach, and there is no single model that is universally applicable, there is clearly room for improvement from many companies in terms of their reporting and practice around workforce engagement, and we hope the range of examples discussed in this report are broad enough for all major UK employers to draw some useful lessons.

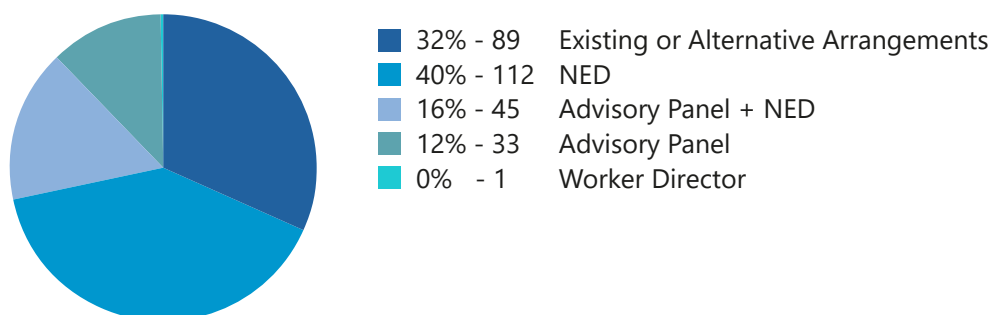
'While every firm will need to choose its own approach, and there is no single model that is universally applicable, there is clearly room for improvement from many companies in terms of their reporting and practice around workforce engagement.'

Responses to the Revised Code

Summary

The first stage in the project involved a review of annual reports published between September 2019 and September 2020. Of the firms in the FTSE 350 index as of August 2020, 70 – largely consisting of investment trusts – had either zero or very few employees. Our analysis therefore focuses on the remaining 280 firms who employ at least 50 staff. Of these, 32% (89 companies) have not adopted any of the three core options in the revised Code as a direct consequence of the Code. These firms chose the ‘explain’ option, providing details of alternative or existing mechanisms that they felt were adequate and met the Code requirements. A handful of these existing arrangements already matched one of the three suggested options in the Code – specifically, four firms already had worker directors on their boards, while around eight are primarily relying on long-standing staff forums or other advisory panel structures.

Response to Code by 280 FTSE 350 Employers



This means that 68% of our sample (191 firms) have responded by newly adopting one of the three suggested mechanisms. By far the largest proportion, 40% (112 companies), have chosen to appoint a designated NED, 12% (33 companies) have chosen to establish an advisory panel – in some cases by developing or expanding on an existing staff forum – and 16% (45 companies) have appointed a NED in combination with setting up an advisory panel. Only one company has appointed a worker director as a direct consequence of the revised code.

Our survey of FTSE 350 firms revealed a similar spread of responses to the Code. We had 70 responses to the survey; a majority of firms (61%) said they have appointed a designated NED, with the second most common means of engagement being an ‘alternative approach’ (33%). A further 17% of firms have set up advisory panels (a quarter of which have also appointed a designated NED) and two firms have newly appointed or pre-existing worker directors. Among those saying ‘alternative approach’, it is worth noting that many firms described in their written comments systems involving one or more NEDs meeting with a ‘colleague forum’, ‘sounding board’ or ‘employee consultation group’ that sounded very much like an advisory panel, suggesting some firms with advisory panel approaches might not recognise this terminology to describe their arrangements.

The other common type of ‘alternative approach’, described in both the survey results and the annual reports, are what might be termed ad hoc arrangements – particularly for the smaller firms with fewer employees, but including some very large firms as well – which include site visits, town halls, staff focus groups, or other informal conversations with employees. In particular, it is striking how many firms in their annual report place a very heavy reliance on an annual employee survey as their primary tool for engagement with the workforce, supplemented perhaps with site visits or other occasional informal discussions with employees.

Reaching the decision

We looked at why firms had adopted the arrangements they had and what the decision-making process had been. In our survey, the vast majority of firms (80%) described their current approach to workforce engagement as an 'evolution' of arrangements already in place before the 2018 Code, with only 16% saying their approach has 'completely changed', and 4% saying their approach is 'completely the same' as before. Of those firms whose arrangements have changed at least somewhat, one third (34%) said these had changed in *direct* response to the 2018 Code, while 61% preferred to say that their changes are partly in response to the Code and partly something they would have done anyway. Only 4% of firms claimed their approach to be entirely unrelated to the Code. Overall, this suggests that the revised Code has had at least some impact on the approach to workforce engagement of the overwhelming majority of FTSE 350 firms.

For some firms, the decision on which engagement mechanism to adopt was felt to be quite obvious, as there were existing forums or structures in place that the board decided to build on. For example, one firm, in its survey response, explained:

'We already have a well-established network of employee guilds and working groups, and we wanted to utilise these rather than impose something new.'

For other firms, either multiple possibilities were discussed by the board or a decision was taken to simply adopt the most straightforward approach, in many cases designating a NED as responsible for workforce engagement. In their annual report, however, most firms include virtually no information about how this decision was reached, or indeed any justification for why it was considered the most appropriate one.

We therefore relied on the survey to explore the decision-making process further. Of those firms with a changed approach since 2018, almost all said the board had been 'very' involved in the decision, and that senior executives had been either 'very' or 'somewhat' involved. In contrast, most firms do not appear to have consulted the workforce in what approach they should take to workforce engagement, with two-thirds (65%) saying workforce representatives had been 'not at all' or 'not particularly' involved, and only 6% saying they had been 'very' involved. The only exceptions were cases where an existing staff forum was being improved or upgraded to satisfy the advisory panel function, in which case the forum was sometimes involved in discussing what changes might be required. One fairly typical survey response described the decision-making process as follows:

'[We] considered a range of options based upon practice elsewhere and then held focused sessions with representatives of relevant functions across the business to workshop the key aspects of what we wanted to do and designed the outcome based on that. Board was engaged throughout.'

This was echoed by many of the interviewees in our 'deep dives', who generally described a process where either the board discussed all the options internally and agreed on the way forward, or a senior executive such as a Head of Engagement or Chief People Officer drew up a specific proposal for board consideration that was then approved. In very few cases were the workforce or their representatives significantly involved in this decision. As a senior manager in one of our case study firms explained:

'We didn't discuss it with the employees at all, it was very much a board decision. I would think there would be very few employees who would have heard of the Corporate Governance Code or the FRC... Talking to employees in [the] USA about the UK Corporate Governance Code would not have made much sense.'

‘Overall, most responses to the Code represent an evolution of existing arrangements rather than any radically new developments.’

‘The appointment of a NED is frequently reported as the ‘most appropriate mechanism’, although often with little explanation of why this might be the case.’

Overall, most responses to the Code represent an evolution of existing arrangements rather than any radically new developments. These range from some very substantial workforce engagement mechanisms at the best practice end of the spectrum, to a significant number of firms which appear to be treating the new Code requirements as a tick-box exercise at the other end (and a small number who appear to have failed to even tick the box). In between are the bulk of companies who are complying with the Code as best they can, employing a range of engagement mechanisms, but often in a rather patchwork fashion, and with little evidence of substantive outcomes.

We now describe the different approaches to workforce engagement in more detail, drawing further from the annual report and survey data, and also including extracts from our ‘deep-dive’ cases. These 17 companies represent all of the major responses to the Code (five have solely designated NEDs, five have advisory panels, five have alternative or existing approaches, and two have worker directors).

Designated Non-executive directors

As we have indicated, of those firms that have adopted one of the three proposed mechanisms for workforce engagement in the new Code, by far the most common response has been to appoint a designated NED (or, in a few cases, multiple designated NEDs, each covering a different region). The appointment of a NED is frequently reported as the ‘most appropriate mechanism’, although often with little explanation of why this might be the case.

The decision to appoint an existing NED was generally taken after a full discussion by the board over who would be the most appropriate person, although around one in five firms in our survey described an existing NED as simply being ‘approached and asked to take on the role’, without reference to a wider board discussion. Only one firm reported going through a process to specifically recruit a new NED to the board to fill this role, though more firms might go through such a recruitment process as existing designated NEDs retire.

It is notable that multiple firms in their annual reports (and two of the firms in our case studies) share the same individuals as their designated NED for workforce engagement. This might be considered a positive sign of particular individuals developing expertise in this area and being able to transfer lessons from one firm to another, though at the same time it does raise questions about commitment and over-boarding.

From our survey, it is unclear why particular individuals were thought suitable for the designated NED role in most cases. Only around one in five has any previous experience in an HR function, and none has any experience as a trade unionist or workforce representative. Nearly half of firms said the NED has ‘no previous experience of working in workforce engagement’ and, of the remainder, the experience mentioned is generally as a CEO or senior executive. One of the more comprehensive survey responses described the reasoning for this as follows:

‘The NED ... designated as being responsible for workforce engagement (our current chairman) was already closely involved and engaged with the company, had active lines of dialogue with the workforce, and frequently and regularly travelled to company offices and plants both in the UK and overseas. It was therefore thought appropriate that he should take on this additional role given his existing engagement with the business.’

After addressing the questions of why a NED is the best choice and who should be appointed, firms also need to consider what the NED will be doing. Here there appear to be a wide variety of activities. Returning to our analysis of company reports, the function of the NED is variously described as to ‘understand employee views and present them to the board’, to ‘act as a conduit between employees and the board’, to ‘engage with

employees across the business, giving feedback to the board', or to provide an 'open channel of communication' for employee issues to be addressed by the board. These are by far the most common descriptions of the broad role of the NED, i.e. to gather employee views and then communicate these to the board. Many firms report the role of the NED as being to 'complement the engagement survey', with the NED responsible for the provision of feedback to the board on the results of an annual survey of employees.

More specifically, reported activities of appointed NEDs are wide-ranging, but focus primarily on site visits, alongside sometimes quite vague references to 'talking to employees' and 'feeding back to the board'. Examples of reported NED activities in annual reports are listed below:

- site visits and plant tours
- conducting town hall meetings
- 'discussing feedback arising from employee surveys'
- answering questions from employees
- chairing the responsible business committee
- commissioning an engagement survey
- lunches and 'working sessions' with groups of employees
- 'meeting with our people regularly' to 'discuss topics they wish to raise'
- meeting with 'small groups of employees'
- meeting with works council members
- receiving updates from HR directors plus union and works council leads
- participating in a variety of engagement channels, such as focus groups
- holding focus groups 'at different levels of the business'
- participating in health and wellbeing workshops
- participating in 'panel discussions'
- holding 'roundtable sessions with colleagues'
- reviewing messages received through the whistleblowing system
- attending summer parties

Our survey similarly suggests that the ways NEDs themselves consult with the workforce are variable, as shown in the table below. One firm simply said that 'A circular was sent to all staff inviting them to make contact' with the NED, with no other activities as yet undertaken. There was no mention of whether any staff had responded to this circular.

How does your designated non-executive director consult with the workforce and seek their opinions? [Select all that apply]					
Site visits	84%	Looking at the result of staff surveys	81%	Consultation with HR who collect the views of the workforce indirectly	65%
Meetings with employee representatives through a staff forum or advisory panel	60%	Holding their own consultation meetings directly with groups of frontline staff	53%	Consultation with line managers who collect the views of the workforce indirectly	16%
Meetings with trade union representatives	16%	They have not yet carried out any work to consult with the workforce or seek their opinions	2%	Other	7%

'In these situations, which are not uncommon, the designated NED appears to function as little more than a vestigial limb, disconnected from the main body of engagement activity.'

'Many firms consider the combination of the designated NED, site visits and an annual survey as a sufficiently robust suite of mechanisms to ensure employee voice at board level.'

In some larger firms with established formal consultation and voice mechanisms, NEDs may attend meetings of other forums and meet with employee relations and HR directors. Some firms refer to the NED meeting with a 'variety of employee representative groups', including works councils and colleague forums, and subsequently reporting to the board with recommendations for management. Many annual reports, however, are rather brief or vague about the activities NEDs are undertaking, simply stating that the NED 'talks to employees', without providing any detail as to how, when, or what about. Other firms give lists of NED activities that appear some way from constituting substantial and meaningful workforce engagement, at times reading more like the itinerary of a visiting dignitary touring the firm. One global firm, for instance, summarises the key activities of their designated NED over a 12-month period as follows:

- *Undertook site visits including plant tours and meetings with employees in [two countries].*
- *Participated in annual UK and Latin America sales meetings.*
- *Visited ... new headquarters in the UK and the Group's manufacturing site in [town].*
- *Participated in a panel discussion that took place on International Women's Day at our head office.'*

While it is of course possible that meaningful dialogue with employees about strategic issues relevant to the board might take place during such events, there is little indication of this in most annual reports, and many firms with designated NEDs provided still less detailed statements of their activities.

Some reports also suggest a degree of confusion about how much responsibility for workforce engagement NEDs actually have, and how they should relate to senior HR executives who may also be working in this space. While some NEDs clearly coordinate their activities carefully with HR or employee engagement directors, there appears to be a degree of duplication and poor coordination in other companies. Many firms with designated NEDs – including over 70% of those with designated NEDs in our survey – describe other individuals as taking the lead on presenting workforce engagement issues to the board and leading discussions on them, which raises a question as to the function and remit of the NED. In the worst cases, the corporate governance section of the annual report states that the firm has fulfilled its workforce engagement obligations under the Code by appointing a designated NED, while the stakeholder engagement section of the same report describes a range of other employee engagement activities without any reference to the designated NED. In these situations, which are not uncommon, the designated NED appears to function as little more than a vestigial limb, disconnected from the main body of engagement activity and having been tagged with the 'workforce engagement' brief merely in order for the firm to appear compliant with this particular aspect of the Code.

In summary, many firms who have designated a NED as responsible for workforce engagement continue to rely heavily upon an annual employee engagement survey, with the HR director or senior HR manager reporting its findings to the board. In most cases, the NED is appointed primarily to complement this process. Many firms consider the combination of the designated NED, site visits and an annual survey as a sufficiently robust suite of mechanisms to ensure employee voice at board level. Other firms make stronger statements in their annual reports about NEDs facilitating a 'channel of two-way communication' between the board and employees, with the 'objective to improve board decision-making', but these reports provide few details on how this process of two-way dialogue works in practice and there is little substantive evidence of the influence of these activities on board decision-making. Many firms report NEDs taking 'key messages' from employees to the board, so these can be 'considered as part of the board's decision-making process', but again there is little elaboration on substantive outcomes from these decisions or examples of concrete changes in policy as a consequence of NED input and activity.

Many firms do say in their reports that 'further reporting' on the NED role will occur next year, or that the role is 'to be developed', with some firms anticipating that 'the frequency of NED meetings will increase'. So, it may still be early days in terms of any definitive assessment of the utility of recently appointed NEDs in the workforce engagement role.

Having gathered a broad picture of NED activities through our analysis of company reports and our survey data, the case study stage of the project allowed us to explore the workings of designated NEDs in more detail at five firms. We present in the boxes below short overviews of the reasoning behind the choice of NED and description of the NED's activities at each of these.

Case Study Firm N1



The company gave one of the existing NEDs responsibility for workforce engagement in response to the Code. It has a long-established European Works Council (EWC), and the NED's responsibilities so far have been primarily around the EWC. The NED has attended every one of the EWC committee and plenary meetings as an observer, while also taking the opportunity to talk directly to EWC reps outside the meetings and without the management side present. The NED also works with the Employee Relations Director to go through issues arising from EWC meetings and reports back to the board. In the future the NED may look more widely at how to engage with representative structures in countries not covered by the EWC. Currently around half the workforce is located outside the EU, beyond the reach of EWCs. The NED has discussed how to engage with other countries, such as working through the local trade unions.

Case Study Firm N2



After a brief board discussion of the alternative options, the decision to appoint a NED was taken with a sense that the firm wanted to 'get on with it' and adopt an approach that could be implemented quickly. It was also thought that a NED would 'bring a fresh pair of eyes' and be able to challenge the board, with the argument made that 'It's easier for a NED to challenge those really difficult topics in a way that maybe an employee representative could not'. The firm is a large, decentralised company, and the individual chosen was the existing NED who had 'already asked the most questions on this topic'. The NED worked with the Employee Engagement Director to draw up their own programme of activities for the first couple of years. The best approach was thought to be to hold engagement sessions involving representatives from clusters of a few countries, to explore issues already covered in the global engagement survey. Four or five of these sessions have been held in the past 12 months, after which the NED writes a summary for discussion by the board.

Case Study Firm N3



As a complex international firm, the board felt that a single worker director, or even a panel of workforce representatives, would not work, as there were too many different areas in the business with specific cultures and views that would not be represented. There were also concerns about giving the role of conduit to an employee due to the dynamics of board meetings, which it was felt they might struggle to adapt to, and it was thought better to give the role to someone better placed to influence the board. As a result, the Chair was appointed as the designated NED and he is described as 'already ... very close to what's happening on the ground'. He has a regular schedule of events, including both large town-hall style meetings with employees as well as smaller focus groups, aiming to hold two-way discussions in both formats. Much of this was done virtually in 2020 due to COVID-19 restrictions.

Case Study Firm N4



The company was looking to appoint a new NED to join the board at the time the revised Code was issued, and so the decision was made to appoint the new NED to the workforce engagement role. The new NED was asked not to join the Remuneration or Audit Committees so they could focus on the workforce engagement brief. Asked about the purpose of the role, the NED commented: 'It's partly being a critical friend, bringing expertise and guidance of course, but there is something really engaging about being intentional with your position on the board, and being there for a purpose.' The NED relies mainly on connecting with existing engagement mechanisms – including employee surveys, virtual networking and training events, diversity networks, workshops on particular subjects, and a new Yammer platform for employees. The firm is putting in place further plans for the NED, with the Chief People Officer commenting: 'It is quite difficult for NEDs to really get to the heart of the business ... so going to see the people actually at the coalface is an additional thing for next year.'

Case Study Firm N5



Prior to the new Code, the board's engagement activities were limited to site visits, and meeting and greeting people, with little formal engagement beyond that. Given the firm is a collection of businesses grown through acquisition, it was thought having one worker director to represent so many historically distinct businesses would be difficult. The appointment of a NED was not seen by the HR Director as the end of the discussion, but rather 'the best way of starting to go down that route ... and the most easily understood'. The Company Secretary similarly commented: 'Put the employee NED in, see how that goes and then work out the direction from there.' The individual chosen has an operations background but a strong interest in this area. In 2020 the NED held virtual meetings across sites in the UK, US and Asia, meeting all levels of employees from managers to apprentices. At the end of the year the NED gave a full report to the board. The company will review its approach to workforce engagement at the end of 2021.

Advisory panels

Advisory panels offer a more structured mechanism for bringing a collective employee voice to the board, and there is some evidence of innovation here. As we indicated above, 78 of the 280 FTSE 350 employers in our sample of company reports have set up some form of advisory panel in response to the Code, with over half of these also appointing one or more designated NEDs. Those firms that combine NEDs with advisory panels are discussed in this section, rather than above, as the existence of the panel gives the NED a distinct role and purpose compared with firms with NEDs alone.

In addition to these 78 firms, we found eight firms with 'alternative arrangements' consisting of a pre-existing staff forum that closely resembles an advisory panel, plus many more firms that have some variety of forum, works council or other permanent body with staff representatives as part of a broader package of arrangements. The 'advisory panel' is therefore an inherently ambiguous category, and hard to quantify, something made more difficult by the wide variety of terminology used to refer to these panels – such as global staff forum, board engagement guild, people forum, employee voice group, colleague contribution panel, and so on. In fact, the one term that is almost never used is 'advisory panel', which may be a source of some confusion for certain firms when reporting against the Code. Several firms responding to our survey who said they relied primarily on a 'colleague forum' or 'sounding board' for their workforce engagement did *not* tick the box describing their approach as an 'advisory panel', suggesting they either do not recognise or choose not to identify with this terminology.

Those firms establishing advisory panels or forums report the broad purpose as to provide an opportunity for the board to understand and take into consideration the interests of the workforce. A typical comment was: 'We chose this as our preferred approach as we believe that a collective voice enables the widest range of views to be heard from across the workforce.' Panels are established to 'consult with employees', and to 'collate employee views and feed them back to the board'. Most firms refer to the board receiving regular reports from the panel, and also actively participating in shaping its remit and approach.

The majority of panels appear to meet at least twice a year, sometimes more, with one firm in our survey reporting weekly or fortnightly meetings. In most cases at least one board member will attend panel meetings, often a NED, and/or the HR director. Many firms refer to inaugural meetings of new panels being attended by the Chair, CEO, NEDs and/or senior HR managers. At the same time, a minority of these firms also reported sending representatives from the panel (such as its chair or other delegates) to attend meetings of the board and brief them on its deliberations. One firm explained this sometimes complex connection between the board and panel as follows:

'The Chief Operating Officer is the designated voice of the People Forum at the board meetings but one or more NEDs regularly engages with the People Forum as well.'

Some firms have adopted a hybrid model of workforce engagement combining panels with a designated non-executive director. A number of these refer to the role of the NED as a 'conduit for dialogue' between employees and the board, via the panel. Often the NED will chair the panel and provide a formal report to the board (either from written minutes or verbally). A common comment was that the NED would 'update the board' on matters discussed with employees following each panel meeting. Some firms refer to the NED as 'championing the interests of employees by bringing their views to the boardroom', or as 'enabling higher levels of engagement and a two-way dialogue between the board and colleagues'. Some firms have introduced a workforce advisory panel and appointed several designated NEDs to liaise with the panel and 'assist in gathering the views of the workforce'.

'Some firms have adopted a hybrid model of workforce engagement combining panels with a designated non-executive director.'

Where a firm does not have one or more NEDs to fulfil this ‘conduit’ role, it generally falls to other executives to do so. Very few firms took the approach of having workforce panel representatives attend board meetings in order to brief the board. There appears to be more scope in these NED/panel arrangements for a two-way communication process, insofar as the NED or NEDs can ‘facilitate the flow of communication between the forum and the Board’. When attending the panel, the NED can answer questions on behalf of the board, as well as asking them. One of the NEDs we interviewed who interfaces with an advisory panel said his job would be ‘much more challenging’ without the panel, and that he couldn’t see how other firms managed with merely a designated NED. A panel member from the same firm commented:

‘Hearing that others might not have a panel, I can’t imagine the challenge of being able to know that you’re getting the most accurate real feedback from colleagues ... It’s reinforced that we do it in the right way.’

While there is evidence of some careful thought having gone into some of these arrangements, in other cases the panel and the NED are rather more detached. In some firms the panel appears to function independently of the designated NED, with the latter appointed in response to the Code but perhaps with little thought as to how the role will complement or combine with the existing forum.

Again, the agenda of advisory panels is often structured in terms of consideration of issues arising from the annual engagement survey, with feedback shared with the board via the NED or another board member, although there is also scope for discussion of a wider range of issues. Commonly reported topics include:

- results of the employee feedback survey
- flexible working
- mental health and wellbeing
- workplace facilities and working environment
- capital investment and growth opportunities
- strategy, purpose, culture and values
- diversity and inclusion
- career development
- pay and bonuses
- CEO selection process
- COVID-19 response
- Brexit and the regulatory landscape
- climate change and sustainability

There is an emphasis on panels supporting or complementing engagement surveys, with firms referring to panels providing ‘valuable input into action plans’ following annual survey results. Some panels have a steering group and develop a schedule of events for the year that incorporate representatives from different locations and functions. In many cases the agenda for meetings is jointly set by discussion between workforce representatives and board or management representatives, to ensure topics of concern to both sides are discussed.

Although many firms refer in their reports to panels ‘enabling the board to hear first-hand from employees’ and to ‘consider their views when deliberating board matters’, there are again relatively few concrete examples provided of where these deliberations have influenced board decisions or advice. That said, some firms report topics from panels being fed back to the board and functional heads in the business then being tasked with identifying action plans, with the intention that these will be monitored on an annual basis. Several also referred to an intention to develop a more robust ‘feedback and reporting loop’, with a number of firms indicating plans to strengthen or develop the work of panels over the coming year.

In some cases it was difficult to discern (at least from the annual report) whether an advisory panel had been established in direct response to the revised Code requirements, or alternatively was a development of an existing structure. Around one in ten firms indicated that the Code had encouraged an existing forum to be formalised into a workforce advisory panel, in accordance with the Code requirements. For example, one firm refers to the Code having 'expand[ed] the existing infrastructure to create a more formal governance framework', while another reports that 'workforce forums already in place provided a strong basis on which to develop and grow a group-wide engagement structure'.

Compared with the appointment of a single designated NED, the advisory panel appears a more robust and structured mechanism for obtaining employee views and feeding these into board deliberations. Panels tend to focus on more strategic issues, be more formalised in terms of regular meetings and minutes being considered at board meetings, and often consist of a more representative group of employees. They also offer more opportunity for the workforce to express a collective voice as a result of informed discussion of issues, as opposed to offering up only individual and atomised comments.

An important issue here is whether panel members are appointed by management or elected by the workforce. Some panels are populated with senior management appointees, chosen from different sections of the workforce, or nominated by line managers. Some are even limited only to a designated NED together with members of the 'leadership team'. Others, however, involve panel members being nominated or elected by the workforce, who might in turn elect the chair of the panel. For example, one firm reports that 'employees from a range of different departments and locations were democratically elected by their peers to serve a two-year term on the forum'. Our survey suggests that a majority of firms with panels use some combination of management selection and workforce election, for instance by having managers vet a shortlist of candidates for election by their colleagues, or having workers nominate candidates to be selected by managers. Firms also vary in how much, if any, training they offer to panel members – something our case study firms found to be a particularly important criteria in their effectiveness.

Some larger companies with more complex structures have developed panels representing employees across regions, perhaps involving several tiers of local, regional and national panels, each made up of delegates from the tier below. Here, efforts have been made to establish a mix of employees from different sections and levels of the business. Some refer to panels as 'the most appropriate engagement tool', and that the panels 'provide the board with new opportunities to seek the views of colleagues across the Group and respond to this feedback'. In several cases board members attend regional forums to brief employee representatives on group plans, and feedback on proposals is then considered when finalising and implementing changes.

Again, a number of panels have only recently been set up and it can be difficult to glean from the company reports how far their activities have impacted on board decision-making. Some panels appear to function primarily as a way for the board to communicate and explain decisions already taken, although permanent employee forums certainly allow for a more in-depth consideration of issues when compared to one-off NED site visits and town hall meetings.

Five of the firms where we conducted interviews at stage C had adopted or developed advisory panels in response to the Code. Four of these also include one or multiple designated NEDs to interface with the panel, while one shares this responsibility among all NEDs. Brief extracts from these five, explaining the reasoning behind their approach and how the panels operate, are shown in the boxes below.

'Compared with the appointment of a single designated NED, the advisory panel appears a more robust and structured mechanism for obtaining employee views and feeding these into board deliberations.'

Case Study Firm P1



A panel was established in 2019 in direct response to the Code. The firm already had a number of employee-led forums, covering topics from climate change to gender diversity, as well as a BAME group. As one director described it, the board decided that 'instead of trying to create anything new, we should jump on a moving train'. The board talked through all three possible models of engagement in the Code, but recognised there was a lot of enthusiasm from the existing forums to have a greater voice. They therefore decided to take one or two representatives from each existing forum to create the new panel that the board could meet with. The board felt it was 'not appropriate to designate one specific NED, so the [conduit role] is shared across all NEDs'. It is open to any NED and the Chair to attend any of the tri-annual meetings. The panel sets its own agenda, covering one to three topics per meeting, and so far has focused on issues including CEO succession, BAME/LGBT representation and sustainability.

Case Study Firm P2



Although the firm is headquartered in the UK, almost all its operations are overseas, which sometimes poses a challenge for the board to stay in touch with the frontline. Hence it was decided that 'the most sensible approach would be to set up a representative panel, given the diversity and wide spread of operations', and to designate one member of the board to interface and report back. The advisory panel was set up in 2019 and a senior NED was chosen to liaise with it. The board approached senior managers from each business area, to establish a panel of 12 representatives reflecting the demographics, business levels and geography of the firm. Some initial virtual engagement events were held, followed by one physical meeting of representatives from across the globe. At the following board meeting there was a designated slot for the NED to present a summary of the topics discussed and his conclusions, with action points to be followed up by the Chief Executive or the engagement team.

Case Study Firm P3



In April 2019 the Chair, CEO and Company Secretary considered the new reporting requirements. The firm already had multiple engagement channels, including a survey and a group of under-35 employees that shadowed the Executive Committee. It was decided to designate a NED to oversee the new engagement process and, after one board member volunteered himself for the role, he worked closely with the Company Secretary and HR function to set up a representative panel of employees. The NED described how 'we wanted reps from various areas to try and get diversity across the group', and panel members were therefore 'chosen rather than elected', but this was described as a starting point, with the future composition of the panel being 'up for discussion'. The panel meets ahead of board meetings, chaired by the NED, who then reports to the board. Initially there was a standing board agenda item on panel feedback, but that has now changed so that when each agenda item arises the NED can express the views of the panel – 'so we are trying to integrate it into the discussion, rather than have it as a separate item'.

Case Study Firm P4



In 2019 the Group HR Director outlined an aspiration to put an advisory panel in place, as the new CEO was keen to drive change in this area. It was also decided to appoint a designated NED to help connect the new panel with the board. The panel has 12 members. A hybrid selection process involved candidates being nominated by at least ten colleagues and then reviewed by management. Nearly 10,000 staff put themselves forward, of which around 1,000 secured sufficient nominations and had the required 12 months' service. The HR Director produced a shortlist of four candidates for each seat who then each made short videos for the CEO, Chair and designated NED to review and make the final appointments, aiming to secure a panel that was balanced by gender, region, ethnicity and staff grade. Over the last 12 months four major summit meetings have been held, with long agendas, alongside a variety of other smaller conversations between the 12 panel members and the NED. The HR Director was clear that this approach offers major advantages over relying on a NED without an advisory panel, commenting on the prospect of the NED doing the job on her own as follows: '[She is] a very capable individual ... but would she have the channels into the business, sufficiently unregulated channels? ... [The panel] means she is best placed now to give an unfettered view back to the board.'

Case Study Firm P5



This very large firm already had an existing structure of staff forums at workplace, group and regional level, before the new Code was introduced, but the board did not meet regularly with the representatives. According to the Chief People Officer, the option of a worker director was quickly discounted: 'Given the size, scale and complexity of our business it would seem like a big ask for one individual ... We already had this network of forums ... [and] we wanted to build on what we already had rather than create something brand new.' The existing UK and Ireland forum structure was expanded to a national panel, the existing EWC adapted into a European panel and a new panel established in a third global region. In the UK it was decided to have one national panel for the main part of the business and a separate panel for all the firm's subsidiaries. Three NEDs were appointed, each responsible for one region's panel, which will reduce to two NEDs after the firm divested itself of operations in one of the three regions. One of them commented: 'For me as a NED, I get the opportunity to talk to 30-40 people about the topics that are on their minds for the better part of a day. That's a really wonderful experience and gives me great insight that I can share with my colleagues.'

Alternative arrangements

While the Code suggests firms adopt one or more of three core options (designated NED, advisory panel and worker director), it also allows companies to take a different approach, stating that 'If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.' Around one-third of the 280 firms we examined at stage A have chosen to go down this route, opting to comply with the Code by explaining in their annual reports why such alternative arrangements are more appropriate for them. This group covers a wide spectrum of different kinds of practice, which fall into three broad categories.

The first of these represents firms where the arrangements reflect pre-existing structures of consultation by the board, perhaps through a regular programme of engagement sessions or close relationships with trade unions, and including at least eight firms relying primarily on a long-established forum that is not dissimilar from the advisory panels discussed above. Many more firms also have a staff forum or equivalent, but list it below other items such as the staff survey in the workforce row of their annual report's table of stakeholder engagement, suggesting implicitly that they see the forum as less important than the survey, or indeed other approaches such as town halls or focus groups, even while maintaining a multi-faceted approach.

The second category represents firms that have taken what might be described as the corner-cutting or default approach to the Code, changing nothing about their existing practices even though they don't actually have any formal engagement processes beyond possibly an annual survey. Instead, these firms have simply chosen to declare their existing arrangements (or lack thereof) as sufficient to comply with the Code, and left it at that.

The third category is those firms that arrived at a choice to do something new and different, through a considered process of elimination of the other three options, as this firm, for example, described in their survey response:

'It was thought that a director appointed from the workforce would have a conflict of interest between his director's duties and responsibilities to the workforce. The company does not have a workforce panel due to its flat organisational structure. Most consideration was given to a designated NED but the workload was thought too much for one individual. The workforce engagement processes were thought to be very good but the CSR Committee was best placed to oversee the workforce engagement mechanisms.'

A number of firms refer to their small workforce as the primary reason why they do not consider any of the three suggested approaches to be appropriate, given that adequate communication mechanisms already exist. Typical comments here from the annual reports include: 'employees have regular access to directors in meetings and informal lunches or other events'; 'staff members ... interact easily between departments and to access members of the senior management team, including the CEOs at both Group and subsidiary level'; and 'there is a high level of visibility of the board to employees and vice versa'. One firm with under 500 employees, for example, states:

'Given the ... flat and accessible nature of the hierarchy, and the many long and close working relationships that exist within the Group, the board has determined that it is appropriate to continue to establish and take into account the interest of the workforce by way of extensive informal engagement combined with occasional quantitative research and feedback.'

This reliance on ad hoc and informal discussions between the board and workforce might be justifiable for firms with very small workforces, including those with fewer than 50 employees (which we excluded from our analysis for that very reason). For firms with a

few hundred employees, however, this approach starts to become less effective, although it might still be possible for directors to hold town-hall style meetings with the entire workforce, or allow genuinely open-door drop-in sessions with any employee.

At the same time, other firms referred to their large workforce and multi-site operations as an impediment to the adoption of any of the three suggested mechanisms. For example, one firm's annual report states:

'With 558,000 employees, located in around 90 countries and services often delivered by a significant number of our employees embedded directly with our customers, ensuring meaningful two-way engagement with the Group's employees is difficult to achieve by using the methods set out in Provision 5 of the Code or a combination of these.'

A number of firms state that 'no single method is suitable for the entire workforce', and so instead rely upon a combination of multiple existing engagement mechanisms – perhaps a European Works Council for their EU operations, national staff forums in some countries, a series of town hall events in their smaller regions, and a global staff survey to integrate feedback across the firm. Example comments from the reports include: 'Given the spread, scale and diversity of the Group's workforce, the board considers it effective to use the established channels', and 'The Board has determined to use a combination of methods to gather the views of the workforce ... rather than specifically adopt one of the three methods set out in the Code, as the Board believes this is more effective and representative of ... a global, diverse workforce'.

Several other firms explain their decision to take an alternative approach without reference to workforce size, but merely suggest that their current arrangements are adequate. This group is extremely broad, and some firms discuss various kinds of meetings between directors and groups of employees, on a more or less formal basis, making it difficult to assess exactly how structured or effective these forms of dialogue are. The following are two examples of this approach:

'The Board felt that it was important that its approach should mirror the Company's values of openness and transparency in order for the engagement to be authentic, meaningful and received positively. Against this backdrop, it was agreed that alternative arrangements as permitted by the Code were preferable to the three options suggested. A three-stage approach has been adopted:
(i) individual meetings with the Directors ... (ii) presentations at Board and committee meetings ... (iii) informal meetings with the whole Board.'

'All members of the Board visit different locations across the world to meet and speak to our employees. We consider this to be an effective means of employee engagement ... as it allows all Directors face-to-face interaction with our people within their working environment and this facilitates the dissemination of their views into Board-level discussions.'

Without more information, it is impossible to know whether directors at these firms are conducting regular, structured and substantial discussions that are feeding back genuine workforce insights to the board, or simply having informal lunches at site visits where they merely chat casually to a small number of employees. Quite a number of these firms take what might be described as a scattergun or piecemeal approach, listing many different types of activity, often informal arrangements, and claiming these add up to a substantial workforce engagement strategy. For example:

'Management regularly engages with the workforce through a range of formal and informal channels, including via emails from the Chief Executive Officer and other senior executives, webcasts, townhalls, team meetings, face-to-face gatherings, breakfast briefings, interviews with senior management and online publications via our intranet ... The Board considers the current workforce engagement approach effective.'

'A number of firms state that 'no single method is suitable for the entire workforce', and so instead rely upon a combination of multiple existing engagement mechanisms.'

'Quite a number of these firms take what might be described as a scattergun or piecemeal approach, listing many different types of activity, often informal arrangements, and claiming these add up to a substantial workforce engagement strategy.'

A number of annual reports state that the board considers the existing workforce engagement mechanisms to be effective, without adequately explaining what these mechanisms are, or how they function. Here, short boilerplate statements are common, such as 'We carry out meaningful, regular dialogue with the workforce', without any further details being provided on the structure, nature, quality, or depth of that dialogue.

So, several of the 'alternative arrangement' firms explicitly refer to existing workforce engagement mechanisms as being sufficient, in their view, to meet the requirements of the Code. Some suggest that the new Code requirements might in fact 'interfere with the existing combination of policies'. The majority of firms in this group appear to be reliant on an annual engagement survey, and feel this is a sufficient means for employee views to be considered at board level, in some cases supplemented by a range of other practices (e.g. site visits, board dinners, CEO briefings, Q&A sessions, quarterly newsletters, blogs and videos, and informal interactions). A large number of firms also described reports from senior management to the board on workplace culture as a key pillar of their compliance with the Code, but this appears to be a rather indirect and mediated form of workforce voice, and few details are provided as to how these managers were engaging with employees to obtain information.

However, although this category includes many of what we might describe as the weaker responses to the revised Code, we cannot conclude that specifying an 'alternative arrangement' to the three suggested mechanisms indicates an underdeveloped approach to workforce engagement in all cases. On the contrary, several other firms, especially larger ones, have well-established and effective formal mechanisms for consulting employees and incorporating employee voice at board level, and have not therefore felt it necessary to supplement this with further new initiatives. Some of these firms clearly have robust and well-functioning employee forums, long pre-dating the revised Code. A number of others have well-established European Works Council and trade union channels, engaging on a regular and structured basis with HR managers, and with an effective process for these deliberations to be fed into board level discussions. Some illustrative comments here are:

'Across the business, around 71% of employees are represented by work councils, trade unions or other bodies and agreements. The business engages with these bodies ... and the Board is apprised of key developments and considerations relating to it. In the course of 2020, the Board intends to further develop its employee engagement programme to ensure coordinated representation of the global workforce.'

'Our engagement with our workforce is being developed further, making good use of the already well-established European Works Council (EWC) structure. EWC representatives meet very regularly with our Group Chief Executive; members of management attend parts of EWC meetings and this year an EWC representative has joined two meetings of the Remuneration Committee.'

We have also included in this final category the four firms that did not *newly adopt* any of the three mechanisms in the revised Code as they already have an existing worker director (some in combination with a well-established employee forum). We discuss worker directors in the next section.

There were again five firms at stage C of the project that fall into this 'alternative arrangements' category, some with pre-existing structures that satisfy the Code requirements, and others that have adopted new approaches. Brief descriptions are provided in the boxes below.

Case Study Firm A1



The firm has a long-standing and effective staff consultation panel that forms the basis of its workforce engagement, so felt there was no need to do anything new in response to the Code, except to formalise these arrangements. It was described as the '[company] way' to consult staff through this kind of structure, and that it has 'always been seen as a company that champions staff participation in the business'. The only change in response to the Code was the 'formalisation of directors and senior managers coming before representatives of the workforce'. Each department is asked if anyone would like to stand as a panel member, elected by the workforce: 'You couldn't do it any other way in a business with our culture. It would be frowned upon if we just selected people.' The panel has its own secretary and a dedicated management chair. Issues from both management and the workforce are presented and discussed, including directors' remuneration. The chair and one of the employee representatives make a joint presentation to the board at the next board meeting. In this way there are both directors attending the forum and forum members attending the board.

Case Study Firm A2



Given the structure of the firm as a portfolio of several dozen largely independent companies, each with its own board of directors, it was felt that no single mechanism from the three options would be appropriate: 'One NED having to visit all of our multiple locations would be too cumbersome on that one person', and likewise for a single worker director, 'if you pick one individual from one individual company, no way can they access the views of the workforce across the breadth of the organisation'. Instead the entire board is expected to visit numerous operating companies each year, and 'spreading that across the whole board means it's easier to cover more ground'. This is complemented by an employee engagement survey, structured in terms of each operating company, with the results analysed by the main board. The Code was described as 'a very good thought exercise for us, in terms of being disciplined ... This caused us to be a bit more intentional about the things we were doing ... We bolstered the instruction guide for a visiting NED in terms of what to watch out for when they do the site visits.'

Case Study Firm A3



The firm uses a variety of workforce engagement activities, many of which pre-date the revised Code. The Chairman described how 'we considered the three methods in detail. Our current method ... gives the board exposure throughout the organisation. This has served us well in enabling views to be heard on a wide range of issues'. The firm felt that any one of the Code's three suggested options would be 'sat out on a limb' and not easily integrated into existing practices. Assigning a designated NED, in particular, was felt to risk detracting from the involvement of other NEDs. The firm primarily relies on an employee engagement survey, plus action plans and site visits, each of which includes a minimum of four engagement sessions with a NED. These expose board members to a cross-section of employees and employee experiences. NEDs also held three voice sessions in 2019, covering topics such as diversity, the gender pay gap, change management and culture. The board has a standing agenda item for NEDs to report back from these sessions. There are also strong trade unions in the US and UK operations that meet with directors at least twice a year. The firm was strongly of the belief that 'we meet the spirit of the Code'.

Case Study Firm A4



The firm has a long-standing partnership agreement with several trade unions. For many years there has been a company forum consisting of nine union representatives, sitting with board members and several senior managers, on a rotating basis, to discuss a range of issues affecting the company. The Code did not trigger any changes to this arrangement, beyond increasing the level of board attendance at meetings, as it was felt that 'the approach that we've got works for us'. From the union side, the worker director option was considered to be a challenge, in terms of how they would be able to gain the necessary experience of how the board works and also avoid becoming distrusted by the workforce over time. Likewise a designated NED might lead other board members to pay less attention to employee engagement. The forum has joint management and union chairs, with the largest union's Branch Secretary being the joint chair. He described how 'the role of the joint chair is not really the leading voice of the trade union, it is the person to bring all the ideas together, to organise and put concerns forward'. The forum meets quarterly and brings forward issues for discussion from lower-level operational forums. The board's Chair, Non-executive and Executive Directors all attend the forum and report back at the following board meeting.

Case Study Firm A5



In light of the global nature of the company, it was felt that a single worker director or NED would be inappropriate, as this individual would be based in only one geographical area and would struggle to speak for the entire workforce. It was therefore decided to involve multiple NEDs in the workforce engagement process. Board members feel they only get so much from executive presentations and the best way to find out what is happening is to 'go to the frontline and talk to people'. A board committee has been established, involving NEDs from all the major regions of operation. It has reviewed the results from the culture survey and is now working with the CEO to further develop a programme of activities over the next year. This will focus heavily on structured listening sessions with groups of employees from different areas. The committee chair was clear in his mind that this was not a 'tick-box approach', saying that it is 'important for all the stakeholders to be listened to' and that the company is determined to embed a broader stakeholder perspective into everything it does.

'The UK corporate governance framework and unitary board structure are not the absolute impediment to worker directors that some commentators have long tried to claim.'

Worker directors

When potential changes to UK corporate governance were being discussed in the immediate aftermath of Theresa May's 2016 speech, it was the possibility of mandatory worker directors that generated the most excitement among its proponents as well as equal degrees of consternation from its detractors. In the end, however, only one firm has appointed a new worker director (in fact, two of them) following the issuing of the revised Code, adding to the three firms that had appointed worker directors over the past few years (one of which involves a German-style supervisory board) and the one firm with a very long-standing worker director. While small in number, these five firms nevertheless represent considerable innovation in UK corporate governance, and they have quite varied experiences of board-level worker representation, from which important lessons can be learned. Most notably, they have proved that the UK corporate governance framework and unitary board structure are not the absolute impediment to worker directors that some commentators have long tried to claim.

Two firms with worker directors responded to our survey and also agreed to participate in stage C of the project as case studies. In both of these firms, the worker directors take a full part in board discussions across all agenda items, not merely those relating to workforce and employment issues. Of course, being full board members whose role is at least partly defined in law, these worker directors have a more rigidly prescribed role and set of duties than the other workforce representatives discussed above. Fears that employees in these roles might be unable to handle confidential information or live up to these legal responsibilities are not borne out in practice in either of the cases we looked at.

We should not assume, however, that all worker directors are fulfilling the same function in the exact same way. Even among the handful of firms with experience in this area, there is a diversity of practice. Some worker directors are appointed by the existing board, while others are elected by their colleagues, a key variation that can give rise to potentially quite different loyalties, perspectives and experiences. In our study this difference was reflected in a distinction between one firm with appointed worker directors whose remit is to bring their own individual perspective, as an employee, to the board, and another firm with a system of elected employee directors where the Group Employee Director functions to collate and represent the views of the wider workforce.

One of the key questions concerning worker directors in the UK context is not so much why five firms have chosen to appoint them, but why the remaining 98% of firms have not. We have already seen some examples of scepticism expressed in some of the company summaries in the previous sections. We asked firms with other approaches whether they had considered appointing a worker director and, if so, why that idea had been rejected. One response that sums up many of the common arguments is:

'There was some reluctance, particularly around the option of having an employee director on the board. I think we felt there were potentially some practical problems with that, in terms of director responsibility, and how you get someone from the workforce to do that role without them having the experience and technical background that directors need to have ... It would have been a stretch for our board at that point to say "yes, we should get one of our employees on the board". I think that option was not really seriously considered ... You have to be careful in assuming that one worker director is necessarily going to be the democratic voice of the whole workforce.'

Other firms expressed concerns that worker directors would be too loyal to the CEO who appointed them, or else might become distrusted over time by the workforce.

In counterpoint, when asked why she thought the majority of other firms were reluctant to copy its example, the HR Director from one firm with a worker director responded with a robust defence:

'I assume one reason may be fear and perceived loss of control – perhaps concern that someone will ask an awkward question that will put them on the back foot, or expose something that should have been done differently, or constrain how they run the business ... Another reason companies might be reluctant is that they think it's a lot of work, and it is. You do have to make sure that the people who get elected know what they're doing ... that they're properly trained and supported to carry out the role in the professional way you want them to ... You do have to invest in creating the right environment for it to succeed.'

We are fortunate that, despite there being only five FTSE 350 firms with worker directors in 2020, two of them are represented among our case studies, giving us an interesting opportunity to compare and contrast their experiences and motivations (see below).

Case Study Firm W1



This company appointed two employee directors to its main board when it was first established several decades ago and, despite subsequent mergers, this principle has become embedded as a normal part of doing business, and is written into the firm's Articles of Association. Today the firm has a Group Employee Director on the main board, plus further employee directors who sit on all the local operating company boards, giving a tiered structure to this employee voice mechanism. All 14 of the local employee directors are elected by the workforce in their areas for a three-year term, and they in turn elect the Group Employee Director, though candidates for this role are first vetted by the board nomination committee to check they have the requisite skills to serve on the board. So, according to the current Group Employee Director, 'it's quite a straightforward connection from the frontline level to who they want to be the employee director', and this person still works on the frontline one day in every 14 – 'to keep it real'.

The Group Employee Director serves as the umbrella for the 14 local employee directors, working closely with them to feed information to the board. He believes this structure has many advantages: 'It's the connection ... I couldn't do my job without the other employee directors, it would be impossible, you would be spread too thinly in a big company, but because of the work they do I can see the similarities and the differences regionally.' At the same time, the employee directors work to build connections with the workforce they represent and gather views from their colleagues. As the HR director put it: 'You need to get people to know who their employee director is, so we promote that through internal channels. The employee directors will hold surgeries and make themselves visible, and the technology helps people feel they can put things forward to their employee director.' It should be noted, however, that this structure currently only covers UK employees, meaning the North American workforce does not have the same workforce engagement mechanism.

In the boardroom, the Group Employee Director is clear that he is treated exactly like any other director and is asked to contribute fully to all board discussions: 'I have full visibility of absolutely everything that's occurring, everything confidential, I have totally full access'. In the letter of appointment it is made clear that employee directors have fiduciary duties, duties of confidentiality and, like all directors, function to promote the interests of the company. This involves a thorough induction and training programme. To date, confidentiality problems have not been an issue for the firm. The HR Director expanded on the benefits that employee directors bring to the firm:

'One of the things we ask the employee directors to do is to make sure that they are representing a cross-section of views. If you get one person with a particular view, that isn't necessarily giving the board the fairest representation of what employees think about a particular issue ... The vast majority of our employees are frontline staff ... and it tends to be the case that the employee directors who are elected tend to come from those populations ... The thing that we find most valuable is that they absolutely know how the frontline operates, they know exactly the environment that the frontline workers are operating in ... and if there are practical issues that frontline workers have got ideas or suggestions about, that allows those EDs to put those ideas forward in their local boardrooms.'



In contrast, the second firm we looked at has two very recently appointed worker directors. Both were selected by management, not elected by the workforce. Although their appointment coincided with the issuance of the new Code, and we have categorised this firm's response to the Code as 'worker director', the Chief People Officer explained that the Code was certainly not the main driver:

'This is part of a much wider range of activities designed to give us the most engaged workforce we can possibly have, because we see business benefit in it, it's aligned with our purpose and we think it's the right thing to do ... Pick any study you like over the last ten years and it will tell you that the more engaged the workforce are, the happier they'll be, the more motivated they'll be, the more likely they are to stay with the organisation, provide a better service to the customer, etc ... It's a complete no-brainer.'

The two worker directors were appointed for a three-year term, following a lengthy selection process. This involved desktop selection against predetermined criteria, followed by a series of interviews with General Counsel, the Company Secretary, the Chief People Officer and the CEO, before a standard board selection via the Nominations Committee. Since their appointment, the CPO confirmed that 'they have been completely involved and immersed in the board and on all committees ... just as any other board member would be'. However, the two worker directors function in a rather different way to those at firm W1, above. One of them summed this up by saying: 'I am not the voice of the employees, I am the voice of *an* employee.' She went on to describe how 'we still spend quite a lot of time explaining that ... that my purpose is to be the voice of an employee in the boardroom ... Some people inside the organisation, and most people outside the organisation, think it's more of an employee representation role'.

Despite this difference in emphasis and remit, the worker director insisted that 'a by-product of having me in there as an employee voice is that it does engender increased employee engagement, because there is a level of interest in the organisation in that [we] have done this'. Moreover, she felt that the two individual employee directors can still reflect wider workforce concerns: 'Although [the other WD] and I often have anecdotal examples, I don't think it's uncommon for those to be indicative of a broader sentiment or issue, so we can add some depth and colour to conversations about things happening within the organisation.'

Although the appointment of two worker directors has received a large degree of publicity, it is clear that this mechanism alone is not considered a substitute for other forms of workforce engagement and consultation. Indeed, one of the worker directors commented: 'I could never understand the views of everybody in the organisation because it's so geographically diverse.' There is therefore a strong sense that, when worker directors are used in this particular way, there remains a need for a wide range of other practices. As the Chief People Officer expressed it: 'Even if we adopted all three of those choices [in the Code], it still doesn't fill the vacuum required to meaningfully engage and consult with your employees.'

Reflections on the choice of approach

In the debate surrounding the relative merits of the different models of workforce engagement outlined in the Code, two quite divergent perspectives can be discerned. One view – expressed by the TUC and many trade unions – is that worker directors are clearly the strongest form of engagement, while NEDs represent the weakest form and are little better than ‘a continuation of the status quo’.⁶ The contending view – heard from the CBI and expressed by many companies in their annual reports – is that ‘every business is different’ and each one will therefore need to find a particular solution that best fits its own circumstances. In this view, recommending worker directors over NEDs makes no sense, as there is no one-size-fits-all solution.⁷

‘Most of the weakest and least substantive practices were those relying solely on NEDs, or on under-developed ‘alternative arrangements’.

Our research does not lead us to fully accept either of these lines of reasoning, though we recognise there may be a grain of truth in both of them. It is fair to say that worker directors are not a panacea for problems of poor workforce engagement, or for out-of-touch boards. Indeed, as one of the worker director firms discussed above made clear, in its view worker directors are no substitute for other employee engagement mechanisms. It is also evident that some companies have demonstrated excellent practice using NEDs, especially when combined with an active advisory panel, to bring meaningful employee voice to the board. Nevertheless, we did find that, in broad terms, most of the weakest and least substantive practices were those relying solely on NEDs, or on underdeveloped ‘alternative arrangements’. Meanwhile, worker directors, even when imperfect, at least guaranteed a minimum level of genuine and direct workforce voice in the boardroom in both the cases we looked at, while all the other mechanisms rely to some extent on the goodwill and competence of whichever management or board figure acts as the conduit to the board. Clearly, the number of firms using worker directors remains too small to draw very general conclusions about their effectiveness. It would be good to see more firms experimenting in this area.

‘Simply having a designated non-executive director achieves nothing; it is what they do that matters.’

One often overlooked distinction between different workforce engagement methods is that, while an advisory panel is a kind of *structure*, whose very nature provides some explanation for how employee voice is collected, both a NED and a worker director are *individuals*. Particularly in the case of a NED, how that individual proceeds to collect and put forward the views of the workforce is often left largely up to them to decide, and it is perhaps here that many firms with designated NEDs appear to have put insufficient thought into what their NEDs should actually be doing. Simply *having* a designated non-executive director achieves nothing; it is what they do that matters.

Relatedly, a key lesson is that culture appears to matter more than the mechanism itself. The best practice cases we studied were all firms with a deeply embedded culture of listening, openness and consultation at all levels – such firms are likely to find they can make their chosen approach work well. In contrast, if companies with serious engagement problems try to impose a solution from above, without first laying the groundwork for a cultural transformation, they are likely to make things worse rather than better, regardless of which approach they adopt. It is notable that, in the vast majority of cases we examined, the workforce themselves were not involved in the decision regarding how the firm responded to the Code. This is itself an indication that a lack of workforce voice in strategic discussions is a deep-rooted issue, and it poses something of a paradox: how can the workforce gain a stronger voice in the boardroom when the voice channels available to them are ones they have no say over?

While some firms had clearly undertaken a thorough evaluation of all the available options before selecting their chosen workforce engagement mechanism, there was a tendency in many others to pick what appeared to them as the easiest approach, in some cases dismissing possible alternatives out of hand without further consideration. That said,

firms should not be criticised in all cases for feeling there was an obvious response to the Code. The Code itself is designed to allow companies to respond in ways that best fit their circumstances. Where, for instance, a firm has an existing structure, such as a staff forum, that is well established and integrated into its existing engagement practices, it is understandable that the default response to the Code will be to build on this existing foundation, rather than expend effort in creating something entirely new. However, there has definitely been a general tendency for companies to be reluctant to explore options that move them too far beyond their comfort zone. The number of firms giving the impression they are looking for excuses for inaction, rather than striving for best practice, or that provide rather vague platitudes and boilerplate statements on workforce engagement in their annual reports, remains disappointingly high.

One kind of argument that appears repeatedly in annual reports, and in some of our interviews, is that the company is too big, too multinational, or too complex to be represented by a single person or panel of people. This contention is used in many companies to argue against having a single worker director, a single designated NED, or a single advisory panel. While recognising the logic in this reasoning, it is worth noting that firms tend not to argue in their annual reports that they are too large or complex to be governed by a single board of directors or single Chief Executive. Meanwhile, most firms in other sections of their annual reports are keen to stress how, despite their wide-ranging operations, all employees feel part of a single corporate culture, brand, or family.

Perhaps some companies underestimate the ability of workforce representatives to speak for groups of which they are not themselves a member, or to take the wider interests of the whole company into account, feeling that these are skills only experienced corporate executives and directors can master. Yet our interviews revealed many examples of excellent workforce representatives – either trade unionists, panel members, or worker directors – who are doing exactly that. Where boards have been willing to trust worker directors or advisory panels with confidential information, or involve them in serious discussion of important issues, that trust has generally been repaid many times over. Perhaps firms could in some cases use some encouragement to be bolder in considering potentially beneficial practices outside their comfort zone, even if those approaches might, as the HR Director at one of the worker director firms put it above, involve ‘a lot of work’.

‘The number of firms giving the impression they are looking for excuses for inaction, rather than striving for best practice, or provide rather vague platitudes and boilerplate statements on workforce engagement in their annual reports, remains disappointingly high.’

Key Themes in Workforce Engagement

Having provided an overview and discussion of the different workforce engagement mechanisms that firms are using, we now consider several cross-cutting themes that arise from any and all of the mechanisms, and within every firm, and are core aspects of the operation and effectiveness of workforce engagement. As the company reports offer only limited insight into these themes, much of the material here comes from stages B and C of the study (the survey and, in particular, the 'deep dive' case studies).

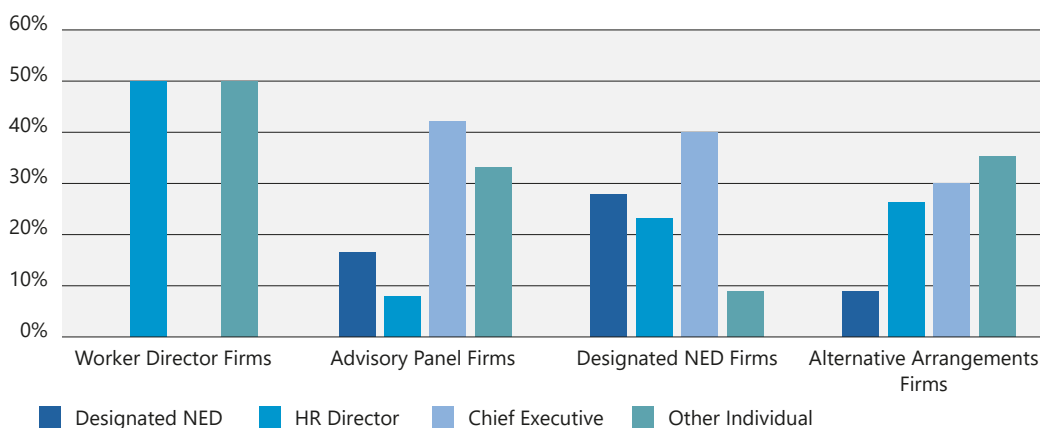
Operation and substance of workforce engagement at board level

The first issue we explore concerns the operational aspects of workforce engagement, in terms of the scope of topics covered by dialogue with the workforce, the nature of the connections between NEDs, advisory panels and boards, and the tone and substance of board deliberations.

Our survey reveals that only a quarter (24%) of responding firms have a designated agenda item at board meetings to consider issues raised by the workforce, although most firms claim that such matters take up around 10-20 minutes of every meeting. Firms with a large overseas workforce are likely to spend significantly less time on this issue at board meetings than firms with a mostly domestic workforce. Just over half (57%) of firms have a full board discussion around workforce issues, and in 43% of boards that discussion is said to result in some action being taken. For around a third of boards, the 'workforce issues' part of the agenda takes the form of an update, usually verbal or with a presentation, which the board will receive but not discuss in any depth.

As we noted earlier, even for firms that have a NED with a designated responsibility for workforce engagement, this is generally not the person who takes the lead in presenting workforce issues to the board – only 28% of firms with a designated NED described this NED as being the person responsible for presenting such issues (see chart). Instead, the most common person to take the lead in presenting workforce issues at these firms is the Chief Executive (40%), followed by the NED and then the HR Director (23%). These proportions were very similar to those among the broader sample of FTSE 350 firms, although there were a wide range of different responses to this question.

Who takes primary responsibility for presenting workforce-raised issues at your board meetings?



Some illustrative comments on how this plays out at board meetings are:

'Issues relating to workforce concerns, satisfaction, management challenges and succession and retention are ordinarily discussed as part of the Board's lengthy discussions with the CEO. Certain issues may be driven by papers produced by HR or the CEO himself. A strong Board awareness of staff talent, satisfaction and concerns is central to the Board's discussion of the implementation and articulation of strategy.'

'The employees present their own views direct to the Board at "teams meet the Board" sessions at the end of each Board meeting.'

'Presentations and updates are given at every board meeting, which are then discussed. Not every one of these discussions leads to decisions or changes being made, but the board gives a steer to the Executive team or the People team on how the company might respond ... Some more important feedback from the workforce results in more direct Board decisions. It is a blend.'

The range of issues discussed at board meetings does not appear to have changed significantly as a result of new workforce engagement initiatives over the past two years, with only 9% of firms saying it had changed 'very much', compared with 63% 'somewhat' and 24% 'not very much'. Overall, workforce issues were said to arise at a minority of board meetings, with only 20% of firms saying they came up at over half of all meetings, compared with most firms saying either 'a few times' or 'once or twice' during the past 12 months. Topics said to have been brought to boards' attention were varied, and included incentive plans, pension benefits, diversity and inclusion, learning and development, improved communication and, more recently, many issues surrounding COVID-19 and remote working. Most firms identified only a very few occasions when workforce engagement had led to a 'change of approach', with 42% identifying only one or two occasions in the past year and a quarter of firms saying this had not happened at all. A minority (15%) of firms identified at least six such occasions, and 6% of firms at least ten occasions, suggesting there is a relatively small proportion of firms where workforce engagement has been more influential over the recent period.

Our case studies, while generally reflecting these survey data, provide a range of further detail on the substance and dynamics of board deliberations. In terms of the issues raised through the workforce engagement process, these are wide ranging, and those mentioned most frequently include:

- sustainability
- employee wellbeing
- diversity and inclusion
- leadership and transparency
- corporate values and culture
- business performance and strategic direction
- decision-making
- communication
- responses to COVID-19 and working from home
- IT issues
- the impact of technology on jobs
- restructuring and reorganisation
- training and redeployment
- health and safety
- data from engagement surveys

The majority of our interview respondents suggested that the issues discussed at the board as a result of the workforce engagement process were consistent with what the board would expect to see. For example:

'There are not big surprises, but it's still important that we can hear from people with experience on the ground and what they feel about the challenges they face.'

'If you have a good exec team then the board are already hearing what the issues are, and what the NED feeds back will not be a shock, so there shouldn't be a jarring between those two things.'

In terms of the issues discussed by advisory panels, and how these are handled, in some firms the agenda of panel meetings is largely set by management. For instance, one panel member said:

'Topics are generally top-down driven, things the board or management team want a steer on. Open-ended questions can be too scattergun, so if there's a topic the board is going to debate, a big strategy topic, it makes sense to align that with the [panel].'

Other firms report a mix of management-led and employee-led issues. At one firm there is a period of time before each meeting when panel members are invited to submit topics. Panel members will also meet beforehand (in a virtual setting) to discuss 'what's on their mind' and to work out an agenda, as well as discuss how they feel the board and management have responded to issues raised at previous panel meetings. At another firm there have been four 'summit meetings' (attended by the Chief Executive, Chair and the designated NED). The HR Director confirmed that the agenda of the first of these was 100% set by the company, laying out the terms of reference for the advisory panel, while the second meeting was 80/20 and the third 50/50, with senior management discussing half-year results and share price challenges, but other panel members increasingly articulating their concerns around wellbeing, diversity and career progression. Another firm reported that panel meetings are 'a two-way flow', with updates from the NED and senior management followed by a 'round the room' session to 'collect any thoughts or concerns that haven't been brought up in the more structured discussion'. A panel member from this firm commented that the NED would not allow discussion of pay and reward issues, and 'wanted to keep us away from things like T&Cs', with the focus of panel meetings being primarily around:

'how [the company] treats its customers, suppliers and colleagues ... people's experiences on the front line ... how are decisions executed ... [and] the actual outcomes of things that seem good on paper.'

We have mentioned that diversity and inclusion is a common topic in panel and board discussions. It is particularly notable that the issue of diversity in the context of the Black Lives Matter movement was commented on by several of our case study firms. A number of interview respondents referred to significantly increased levels of interest and input from employees around this issue over the past 12 months. One particularly striking comment was:

'BLM has turned on its head what engagement and inclusion feels and sounds like across a business like ours ... This has resulted in strengthened communities within the business, especially during very difficult times ... The immediate requirement was for discussion, understanding, empathy, space.'

A variety of other responses and initiatives were mentioned. For example, one firm has created a series of 'listening groups' involving black employees, and the Employee Engagement Director commented that this has 'made us much more thoughtful about the importance of how people feel at work, beyond just concrete discrimination'. Similarly, the NED at another firm referred to heightened activity in the BAME network, and said this 'starts the conversation and starts things being put in place, talent acceleration programmes, it helps put a spotlight on it'. In the context of the generally increasing awareness of the issue during 2020, the HR Director at another firm said:

'The amount of chat that we had on Yammer was unbelievable ... and we had 2,000 people dial into listening groups ... We orchestrated our response to that through the employee network groups ... and a Black Lives Matter advisory group.'

In terms of the mechanics of how designated NEDs will bring issues to the board, a number of respondents referred to the NED summarising whom they have met, the visits they have had, how many people were involved and the key themes they had assimilated. As we discuss further below, NEDs will often draw upon a wide range of available data from a variety of 'touch points' within the organisation. A number of firms stressed that designated NEDs have a degree of independence in this regard. For example:

'We've given the NED a structure, but also given her freedom within that structure to go where she wants, to find out what she needs, and give her the data so she can enquire. We don't limit her access just to the good issues, or the sites that are doing well. We selected two very challenging sites undergoing transition. We don't seek to filter what she is seeing.'

Aside from raising specific issues or topics, a number of respondents emphasised the role of the NED as rather more along the lines of checking or confirming that the values and the purpose of the firm are being put into practice and are aligned with employee views. This was often expressed as bringing a sense of the 'sentiment' of the workforce into board deliberations. One typical comment was:

'The say-do ratio is important ... narrowing the gap between what you say, around values, and what you do ... Where the NED can be useful is checking that say-do ratio. So if we talk a lot about values, are we actually doing it? ... We talk a lot about values, inclusion, high-performance culture, and what I want to see from [the NED] is whether we are actually delivering on that or not.'

A similar point was made by the Chief People Officer at another firm, who said that while no notable changes have been made to the board's agenda as a result of the designated NED's input, the role is:

'more a process of assurance in providing another channel to make certain that the decisions we're taking are being done with awareness of the views of the workforce.'

Regarding the process whereby discussions and issues from panels are brought to the board, some respondents referred to panel meetings being held immediately prior to board meetings, so key insights can be taken straight into the board meeting that same day. Others mentioned panel meetings being scheduled ahead of strategic review meetings. For example:

'We would take the insights from [the panel] into a board meeting. Each of us would play back key takeaways and insights to the board meeting, with the Chair leading on that and [asking] "do we see any action that needs taking off the back of that?"'

At this firm the report of the NED from panel meetings is a formal topic on the board agenda, with a written document prepared and shared with the rest of the board. The NED will speak to the main points and respond to questions from the board, with maybe 20-30 minutes of questions and discussion. This is one of several firms where the NED has been explicitly positioned as a conduit between an employee panel and the board. While this link can work well, in some cases there is a concern that it can be difficult for NEDs to feel confident that the views expressed in the panel meetings are representative, suggesting that some panels do not necessarily speak for the wider workforce. For example, one NED commented:

'We have a good representative body of people [on the panel], but I can't say hand on heart that is then going into the organisation and getting a good representative view of the organisation, and I would struggle to know how we do that ... I still think we are struggling because of the logistics of getting those opinions through. I ask people "Is that the opinion of your group, or is that your opinion?"'

As we outlined earlier, some of the firms in our sample have well-established mechanisms for workforce engagement and did not feel any requirement to go further in adopting any of the three options specified in the revised Code. It is here that we see perhaps the most mature processes in terms of connections between employee voice mechanisms and the board. At one firm, for example, there is a four-tier process behind the company forum – consisting of 'comm cells', local forums, business forums (department wide) and finally the company forum. However, although it was felt that this existing structure provides full compliance, the Code did prompt some changes to the operation of the forum. Where previously there had been only periodic attendance from board members, they now attend every meeting, with different board members attending each time – sometimes the CEO, sometimes the Chair, sometimes other NEDs. After each quarterly forum meeting there will be a range of inputs into the next board meeting. Quarterly forum meetings have a wide-ranging agenda and are joint management/trade union chaired.

The firm in our sample with an established employee director is also worthy of note, as the system of employee directors at different levels within the firm allows the Group Employee Director to operate as an effective conduit for worker views from across the firm to be fed into the board. In his words:

'I do a board report for our board, built up of what each of those employee directors are specifically talking about in their areas, and I pick out the highlights and build that into one single report, so I can give a sense of [the business] across the UK ... and that is for noting or discussion.'

The contrast with the other firm in our sample with a worker director is interesting here. As we have explained, this firm has not positioned its two worker directors to have this broader representative role – they are each providing a worker voice, not the worker voice. The HR Director commented that, while this works very well in its own terms, appointing a worker director should not be seen as a sufficient mechanism to cover all board-level workforce engagement requirements, and other complementary mechanisms should also be considered:

'I'm not convinced that just because you have a worker on the board, that somehow meets the needs or intent of this ... These people weren't elected, they were selected ... and they don't have a mandate to be engaging the 60,000 employees in our workforce, or indeed to be a conduit for those 60,000 people ... [There might also be] a broader people committee, that looks at a range of issues the board have already looked at – like RemCo and NomCo, and so on – but that remit is expanded to include things like employee engagement, wellbeing, communications, and so on.'

Links with other workforce engagement policies and practices

We have described how firms' responses to the revised Code in many cases represent a development of existing practices, or the use of a new mechanism in combination with established channels for employee voice. Board-level workforce engagement works best where it is introduced not in isolation but with thought for how it can complement and support existing practices.

Many of those firms that have appointed a designated NED refer to linking this role with an annual employee engagement survey. While this connection may be underdeveloped and rather superficial in some cases, in others there appears to be a more sophisticated and detailed process for analysing survey data and bringing relevant insights to the board. In one case, for example, a large-scale employee survey is conducted every two years, with regular pulse surveys in between, and these are said to provide a wide range of statistical insight that the Employee Engagement Director and the NED examine. Similarly at another firm, the NED is given 'a thorough reprise of the engagement survey, and she can interrogate that'. Other 'touch points' commonly referred to include various roundtables, roadshows, site visits and networking meetings.

In many cases the NED will have an overview of all of these, checking for consistency and common themes across them, and reporting to the board on relevant insights and activities. So again, the NED role is less, or not merely, one of direct contact and dialogue with the workforce through advisory panels, but also one of compiling data and sentiment from across a range of other activities, and it will be the combination of these that is then presented and discussed with the board. At one firm where the designated NED conducts focus groups and town hall sessions, it was stressed that the focus group discussions will provide some qualitative depth and detail, while the engagement survey provides the broader quantitative overview. Neither is sufficient on its own, but in combination they allow the NED to develop a fuller picture of employee feelings and concerns. Firms that have established advisory panels, or have other existing practices, made similar comments about these kinds of connections, such as:

'[As well as] the engagement survey ... what we have done in setting up the [panel] is provide a deeper touch point, and on a more regular basis.'

'We've got multiple routes for understanding what colleagues are thinking, but what this [the panel] does is bring us more colour than we could get from just reading survey results.'

'The [panel meetings] are the regular drumbeat of employee views and ... the way we drive a lot of change and a lot of the cultural enhancements within the company ... [The survey] is the big temperature check on whether we're getting the whole thing right.'

The firm with recently appointed worker directors also refers to their role in drawing upon a range of engagement mechanisms, as well as contributing to discussions on how these other policies are set up. One of the employee directors commented:

'There are a lot of other mechanisms in place, and those are the primary employee engagement mechanisms, but where we have been helpful in the boardroom is dissecting some of the feedback, so those other mechanisms generate outputs and information, and what we do is analyse them and think about them ... The board is a team of people who bring different things, and that's the bit that we can definitely contribute, analysing employee sentiment, or even, when you are putting a survey out there, what questions to ask and how to frame certain questions, I think that's been quite helpful, just giving our view on the different mechanisms we are using for wider employee engagement.'

‘There is a risk that employees can become weary and sceptical of multiple and duplicate engagement practices that lack connection, substance, and follow-through.’

While a picture emerges here of firms employing a wide range of different ways of seeking employee views and feedback, and our case studies highlight some particularly effective practices, as we have already indicated, integration and alignment across different mechanisms can sometimes be poor. Many annual reports list various mechanisms without adequately explaining how they relate to one another. There is a risk that employees can become weary and sceptical of multiple and duplicate engagement practices that lack connection, substance, and follow-through. In the words of one designated NED:

‘You can get to a situation of overkill with your staff. We have lots of mechanisms we can use. So do we need another one? ... You have to balance it.’

Links with forms of collective employee voice and representation

Aside from how workforce engagement mechanisms align with other engagement policies and practices, we also wanted to consider cases where practices designed to bring employee voice into the boardroom sit alongside wider collective forms of employee consultation and representation, in particular trade unions.

From our analysis of company reports, it is apparent that many firms with ‘alternative arrangements’ list trade unions as one of those forms of workplace engagement. However, it is not always clear, within these reports at least, if unions are actually involved in strategic dialogue with the board, or rather function only in their more traditional and established role of bargaining with management over terms and conditions of employment. If the latter, firms should not be describing unions as a mechanism for board-level workforce engagement as per the Code, and doing so may mask a lack of initiative in this area. That said, in some firms unions clearly are integrated into board-level engagement processes, as we illustrate below.

About a quarter of the firms in our survey that say they have ‘alternative arrangements’ for workforce engagement rely heavily on meetings with recognised trade unions, among other things, while 16% of firms with designated NEDs also say that the NED holds meetings with union representatives. A number of annual reports refer to trade unions as one example of how firms engage with their employees (albeit not usually the top example). This is particularly the case in the larger, multinational firms, many of which are in the ‘alternative arrangements’ category, and some of these will have a well-established cross-national system of works councils, which provides a structure for extensive dialogue with recognised trade unions.

Several of our stage C case study firms recognise trade unions and employ a variety of consultative and representative mechanisms, the precise configuration of which will reflect corporate structures, organisational values and historical features of employment relations. How do the activities of NEDs, advisory panels and worker directors relate to these existing mechanisms? Is the relationship complementary or conflictual? How do trade unions and other bodies perceive the merits, or otherwise, of workforce engagement practices? Broadly speaking, our cases reflect a spectrum of positions on these questions. We highlight just a small number here.

At one end of the spectrum is a firm where there has been a degree of conflict over workforce engagement practices, or at least a lack of union support for their introduction. Many employees responded with scepticism to the establishment of an advisory panel, feeling that as there is already a trade union channel, there is no need to engage with this

management-initiated process. Initially, both of the UK unions published identical letters stating they did not believe the firm needed an additional advisory panel. The HR Director said that when the panel has tried to run town-hall meetings, the attendance has been very low, and the panel lacks a sufficient profile within the business. Partly this is an issue of legitimacy, and he is:

'not sure that most of the colleagues buy into the [panel] ... More of them see the union as the representatives of the workforce ... I'm not sure it can trump elected officials.'

He says it has been important to stress to the trade unions that the panel is not designed to encroach upon their role in discussing pay and wider terms and conditions, but is more focused on corporate policy and messaging. In his words:

'I encourage everyone to stay in their lanes ... Setting the mandate is very important, being really clear about the role they would play, and staying out of the union lane.'

At another firm the union has been rather more integrated into the advisory panel process. Panel members are selected from lower-level panels, which are trade union-led, although the main panel operates in a non-union capacity. As the Chief People Officer explained, representatives come from all parts of the business (frontline, distribution, administration), but 'they don't attend in a union capacity, they attend in a colleague capacity'. The firm has appointed a designated NED to collate views from the forum, and also sees value in trade union reps collecting employee views from different parts of the business. The NED commented that 'because most of them are union reps, they are well versed in this'.

This more collaborative approach is also very evident at another firm, where there is perhaps the strongest integration of trade unions within board-level workforce engagement, while the unions also maintain their distinct and separate collective bargaining role. Senior trade union representatives sit on the company forum, and all the members of this body are union members, while other union reps sit on the lower tiers of the system. The joint union and management chairs meet regularly and jointly decide the agenda of the forum (one important recent item, for example, was the restructuring of a department with 240 employees and efforts at redeployment and avoiding redundancies). These arrangements are provided for in the formal partnership agreement between the firm and the three recognised trade unions. The unions are integrated into the board-level voice mechanism, but also operate in parallel to it. The forum gives frontline representatives direct access to the executive and board members, and all board members now attend forum meetings, on a rotation basis. According to the Operations Director, the board considers this an excellent means of ensuring that the views of employees across the organisation are addressed in board discussions. The management side joint chair of the forum commented:

'[The firm has] always been big on partnership working ... We have a really collaborative relationship – I respect the views of the unions, and they respect my view ... It is too easy to assume the trade unions are only looking out for their members ... [but] at their heart they really want the company to be a success ... [There are] many long-standing staff here who are very loyal to the company ... something the management are very conscious of.'

If this is a case of trade unions being integrated effectively into the operation of an advisory panel or forum, another firm provides an example of close collaboration between unions and an employee director, or, more accurately, a system of employee directors. As the Group Employee Director explained:

'It's really effective at a local level ... As an ED, I [would] work really closely with my safety rep, with my equalities rep, with my learning rep ... I'd be invited by the safety rep to walk around on a safety tour and we'd do it together, so at a local level it's really, really effective ... We encourage a joined-up thinking approach ... My experience as [a regional] employee director is that I would work really closely with the union, and if there was a business decision I might have 30 minutes with the managing director, and then immediately after with the union, both in the same kind of session.'

The HR Director at the same firm further confirmed the importance of maintaining a clear separation between the two distinct aspects of the trade union role, while also explaining how these can be complementary rather than conflictual:

'In practice we don't have any issues because we have quite a clear delineation between the collective bargaining arrangements, which are absolutely the preserve of the trade unions, negotiating pay etc ... but the broader concept of employee representation in the boardroom is through the employee director ... The employee directors make a particular point of building constructive and open relationships with their local trade union reps, and they treat each other with mutual respect. The unions understand that the employee director is not there to usurp or supplant their responsibilities for collective bargaining ... They respect each other's boundaries quite well.'

Outcomes and impact of board-level workforce engagement

'Company reports tend to provide a distinct lack of information on the outcomes of board-level workforce engagement.'

Having considered the mechanisms and operation of workforce engagement, perhaps the most important question to ask is what difference these practices make. In what ways have firms explained the outcomes of workforce engagement? Can any clear impacts be identified? How have decisions following workforce engagement processes been communicated back to the workforce?

As we suggested earlier, company reports tend to provide a distinct lack of information on the outcomes of board-level workforce engagement. While it is the responsibility of the executive, rather than the board, to implement policy changes, we still see relatively few concrete examples of how workforce concerns have been filtered through to tangible outcomes. Similarly, among our survey respondents, only 6% of firms felt that their chosen workforce engagement mechanism had led to 'significant improvements' in boardroom decision-making, while 71% described 'minor improvements' and 23% 'no effect'. Likewise, in terms of the overall impact of the revised Code, 15% described 'significant improvements' to their engagement as a result, compared with 80% 'minor improvements', and 5% 'no effect'. Interestingly, many more firms which had adopted an advisory panel felt the Code had led to 'significant improvements' in workforce engagement (42%) than did firms which had appointed a designated NED (only 10%).

Our case studies reveal a similar pattern, with firms either unable to specify direct and specific outcomes or policy changes flowing from the workforce engagement process, or else referring instead to rather more intangible benefits and consequences. This is reflected in the following indicative comments:

'It is hard to provide specific tangible actions the board has taken as a result of feedback ... [but they have] a more holistic view about how they see the organisation.'

'In terms of [the NED] impacting actual decisions, I think the stuff that's been raised so far has been already known and understood by executives, so there is nothing massively surprising that has come out of it.'

Some respondents stressed that the workforce engagement process should not, in any case, be evaluated by reference to concrete changes in policy or practice, as the benefits are seen more in the opportunity it provides for boards to gauge the 'sentiment' of the workforce, and for employees in turn to feel that their interests and concerns are being articulated and incorporated into board deliberations. Several comments were made to this effect, such as:

'It's not only about actions ... It's just good to hear the passion, and to add a voice of support. So it's for the employees to feel that board support, that's another important aspect.'

'It's as much about amplifying what the business is trying to do as it is about saying "oh hello, we need to change things".'

'Very few things I've heard weren't already on the radar, but it brings a great understanding of the complexity of these issues and how we can accelerate these things in certain ways.'

'They are non-execs, they don't run the business ... The sentiment that we bring to the forum has been helpful to advise in terms of how they work with our exec team. They can draw insights from the more formal data points ... but we are able to put a bit more colour on that through the forum.'

The Chief People Officer at one firm exemplified the way many of our respondents described the benefits of workforce engagement, as follows:

'It is early days in terms of pointing to which specific parts of the business have changed in terms of employee voice in the boardroom, but culturally it continues to enhance the richness of the conversation.'

This same respondent also described how the engagement process, in a large company, had facilitated different parts of the business to become more integrated and included, describing subsidiaries as having been:

'brought back under the [company] umbrella more ... In a large business it is very easy that the dominant market has the larger voice ... What this has done is given a fair opportunity for the voices of all the businesses, and all the parts of the business that may have struggled due to scale or size, to be on the agenda of the board.'

While these outcomes are fairly amorphous and hard to pin down, there were some examples provided of where workforce engagement mechanisms had fed through to more specific policy actions. For example, one firm referred to:

'some gaps and emerging concerns ... around mental health and the support we are providing ... We are going to pick up on that in the coming sessions [and] ... already this is driving action in the organisation.'

Likewise, a respondent from another firm referred to the establishment of an advisory panel having:

'influenced the tone and voice of communications within the business ... [and] helped to shape a number of policies ... [for example] around wellbeing and use of social media.'

Again it is at the firm with the tiered forum system where we see perhaps the most concrete evidence of substantive issues being followed through. Recent major discussions have revolved around rest time for staff, an issue that was escalated from the shop floor to the company forum and hence to the boardroom, and about which the firm has now established a working group. These working groups are regularly set up to look at issues that have arisen via the forum, and the Operations Director commented:

'The agenda for these sessions covers a range of topics that inform and lead to practical changes in the way we work.'

Overall, however, the dominant sense from across all three stages of the project is that the benefits of workforce engagement at board level are perceived to be less around driving board-level decision-making per se and more in allowing the board to be informed of workforce views in their interactions with executive management. The data that NEDs and panels can provide offer richness and detail, enhancing the transparency of employee views in the boardroom and, as one of our respondents put it, 'increasing the competency of directors to interrogate management'. This points again to the purpose of workforce engagement in holding the board and senior management accountable. As the Group Employee Director at the firm with an established system of employee directors expressed it:

'I'm a non-exec, but in a unique position, to provide almost a reassurance that what the two execs are saying actually does occur on the frontline (or not, occasionally), and that works quite well ... My report is to back up whether the intentions of the board are actually occurring. It's for the two execs to then take that feedback and deliver that change.'

Dialogue and feedback around workforce engagement

A corollary of the effective incorporation of employee voice at the board level is that employees are made aware of those board deliberations and how their voice is being used. However, what is important is not merely communication back to the workforce ('you said, we did'), but rather the creation of a feedback loop. Here, employees will be properly briefed on strategic issues within the business prior to their opinions being sought, so they can exercise 'informed voice', as well as subsequently being made aware of the consequences of that input. So, we were interested to explore the extent of any feedback loop and two-way dialogue between boards and the workforce. Given that advisory panels are often populated with those employees who are the most enthusiastic or knowledgeable on specific issues, and often selected by senior managers rather than elected or chosen by their peers, we also asked our interview respondents how confident they were in the awareness of workforce engagement mechanisms among the wider workforce.

Our survey results suggest that communicating board discussions back to the workforce is a fairly patchy affair. Only just over half of firms who had anything to communicate (56%) made use of their official workforce engagement mechanism for this purpose, although among firms with advisory panels this rose to 75%. Common communication methods included all staff emails/newsletters, the company intranet, the line management chain, or meetings/roadshows, suggesting that in many cases information is unlikely to

'What is important is not merely communication back to the workforce ('you said, we did'), but rather the creation of a feedback loop.'

filter through to anyone other than the most engaged and proactive of employees. This was also reflected in the period of time involved in communicating back to the workforce after board meetings – while 42% of firms estimated under a week to communicate back, another 40% said this took up to a month, while 10% said over a month. The final 10% of firms did not communicate boardroom discussions of workforce-raised issues back to their workforce at all.

In our case study firms, a variety of practices were used as ways of communicating board deliberations to the workforce. Firms referred to intranet communications, blog entries, internal Yammer networks, town hall meetings, newsletters, etc. Others suggested that feedback from panel and board discussions was looser:

'I wouldn't say there is a formal mechanism to say "this is what the NEDs took from your meeting and this is what they've suggested based on what you said". You do hear things anecdotally. It's more informal than formal.'

While NEDs will make efforts to communicate board discussions back to advisory panels, there is not always certainty that the issues then filter out to the wider workforce. As one NED commented:

'I get a good audience at the board when I discuss a topic from the [panel], it's taken seriously by the CEO as well ... I do a formal response back to the [panel] after the board meeting, a detailed note ... usually within a week to ten days of the meeting, and that feedback to the [panel] should be fed back to the people they are getting the views from in the first place, but again that's an area I think most people would be struggling with, just to know whether that happens. I can regulate my feedback to the [panel], but whether it gets out there is a difficult one.'

As regards how far panel members are representative of the workforce at large, and how aware that wider workforce is of the engagement process, one HR Director indicated that only a handful of staff have interacted directly with the panel. He is also aware of other staff asking whether the panel is still in existence, and admitted it is 'hard to maintain enough focus on it'. He suggested a way forward might be to publish an annual report from the panel detailing a few items where employees can see it has made a real difference. Similarly at another firm, those employees involved in the panel were said to be 'more invested, and would know more about its purpose and activities', while colleagues further away from this 'might not even be aware of what the panel is yet'. In the same firm, one of the panel reps suggested that the feedback loop is hampered due to a lack of minutes and action points from the panel meetings, meaning there is 'nothing much for the reps to feed back to people'.

Some of our respondents suggested that different degrees of knowledge about workforce engagement processes among the wider workforce will also reflect varying levels of interest on the part of employees, for example:

'There will always be pockets of people who are cynical ... Levels of engagement have improved ... but it depends on how far employees want to be involved ... If there is something you are interested in, chances are there is something in the organisation you can participate in. If you're not, fine, you can just sit on the sidelines.'

'It's not ideal, but that may reflect the approach to work of those employees ... Some people want to come in, do a good job and go home ... Some people want to get really stuck in and know everything there is to know about the organisation.'

The firm with a tiered system of company forums does appear to facilitate a significant level of two-way communication, both within the layers of the forum and between the main forum and the board. The forum meets members of the board on a regular basis, and the chair of the forum said the trade unions operate as a very effective communications channel, in both directions. In his words:

'It gives members of the board insight and awareness if there are any concerns ... All minutes are documented and put on the company intranet ... [and] if people raised an issue they will come to the forum members to ask if there was a resolution.'

The firm with a Group Employee Director is also able to draw upon its established network of regional employee directors, both in terms of compiling a report for the main board and also in terms of feeding back:

'I have a meeting with all the 14 EDs, and part of that is for me to gain any specifics about what's going on in the 14 areas, but also I then give a little brief back about my actions from the period, and I cover the whole of the board, trying to bring it back down again.'

That said, it is interesting to note that this feedback role can be a difficult one for this employee director to navigate, given his experience and continued status as a regular employee, which is very different from the other directors on the board. As he explained:

'Filtering back [to the workforce] for me is more of a challenge, because of the confidentiality of what occurs in the PLC board meeting ... I have to pick points out ... When I am back down to ... [the local level, someone] will say "well, you're on the board, so what's going on?, what's happening?", and I have to say "I can't tell you, I can't really give you a full overview of what's occurring", so that can be a little bit challenging.'

Ongoing developments

Our case study interviews revealed a great deal of detail on the operational aspects of workforce engagement practices, as outlined above. Many of these initiatives have only been in place for a relatively short period. The revised Code came into effect in January 2019 and firms have had around 18 months to implement and work with any new initiatives. We therefore also asked respondents, finally, to briefly reflect on this initial period, on any lessons they had learned so far, and whether they had planned any changes for the coming period.

The firms with designated NEDs all said that the role might be further developed. At one, for example, the Employee Engagement Director suggested that the workforce engagement role may over time be spread or extended to a wider range of non-execs, rather than remaining the preserve of only one designated NED. Likewise at another firm there is discussion of changing the NED role:

'We've learned lessons and adjusted accordingly, and that will be the case going forward ... The rotation of ... the NED is key to this, as you wouldn't want that to get stale, but at the moment it's important that we have the continuity, and trust being built up in the process, and once we have that we can start moving the players around a bit more.'

A number of firms spoke of their workforce engagement initiatives being quite new and needing time to 'bed down' before changes would be considered. Typical comments were:

'[The panel] feels like a really good thing to do, we are getting a lot from it ... We need to let it continue to run, at least another year, and then ask if it's still working for everyone, do an annual review, but right now I think we are just getting in the groove, and we need to let it run to get the momentum right and build the trust.'

'If we felt, after a couple of years, that this wasn't working properly and delivering the dialogue between the workforce and the board, we'd make appropriate tweaks or do this in a different fashion.'

At one firm with a designated NED, the challenge is to ensure that the NED's engagement role can work effectively across the business, given the split nature of the workforce, where many employees are working on an external consultant basis. The Chief People Officer stressed the focus on improving the input from these more remote employees:

'There is very high awareness among the internal employees ... but the consultant base is our challenge ... They are not employed by the client, but they are often very involved in the client's activities, and not so much in ours ... In order to make good decisions on behalf of those people, we need to hear from more of them.'

Those firms with newly established advisory panels are also reflecting on how these have operated in their first year and considering how they might be adapted to function more effectively. Some mentioned the need to ensure a better balance in discussions between high-level strategic issues and 'bottom up' workforce issues, while others stressed the need for clearer communication of the outputs from panel meetings, and 'ensuring colleagues understand actions being taken'. Better training for panel members was also mentioned, in terms of how to articulate workforce concerns effectively to board members and NEDs. Overall there was a sense that the panels will need time to become integrated with other established engagement mechanisms. One typical comment was:

'Now we know one another, the panel members are more experienced and know how to do their roles more effectively ... We're learning by doing and we're constantly trying to improve the process ... We've given some thought to how we might evolve this. We are doing a lot of pulse surveys, so could we use panel members to spearhead topics we'd like to follow up on from the surveys?'

Conclusions

Principles of good practice in workforce engagement

To date, most responses to the 2018 Corporate Governance Code have proved to be less a revolution than an evolution of existing workforce engagement arrangements, often reflecting the size and structure of firms, different strategic priorities, and historical patterns of employee consultation and employment relations. Perhaps these are not the radical changes that some had hoped for, with only a tiny fraction of firms opting to appoint worker directors to their board. The changes have prompted, however, a large number of firms to take a serious look at board-level workforce engagement, and we can see the first seeds of a widespread shift in attitudes in this area. At the same time, some of those firms that were already ahead of the curve have taken the opportunity to formalise and improve their existing structures.

This report has highlighted a number of cases that we might describe as evidencing ‘good practice’. What unites these firms is not so much a common model or mechanism for workforce engagement – there are examples of good practice in each of the major categories of NEDs, advisory panels, worker directors and ‘alternative approaches’ – but rather a common attitude that considers the issue not from a narrow perspective of compliance, but rather from a genuine desire to engage with employee views, and a recognition of the benefits such engagement can bring to the firm.

These are companies that have taken the time to properly think about *why* they are facilitating board-level employee voice, not simply rushing into it because they feel the Code requires them to do so. Of course, there are multiple potential answers to this question of ‘why’, none of which is necessarily the ‘right’ answer. Is the purpose simply to broaden the diversity of viewpoints around the boardroom table? Is it to provide the entire workforce with a collective, representative voice that can influence the direction of the firm? Is it to use the workforce as a sounding board for decisions the board and management have already made, or to bring issues of workforce concern to the board’s attention? Perhaps it is all of the above? Policy-makers and business leaders alike will need to carefully consider these questions before embarking on further major decisions in this area.

Before we reflect further on debates around the rationale for worker voice within the boardroom, there are some general lessons we can glean around what makes board-level workforce engagement arrangements effective. While it is hard at this stage to be definitive about what works and what doesn’t – with many firms having only had one rather atypical year of experience from which to assess any new initiatives – nevertheless we feel confident enough to suggest all firms give careful consideration to the following points:

- Representativeness and breadth of coverage – ensuring that the employee voice reflects the geography and demography of the workforce. Voice mechanisms need to be adapted to ensure they can reach across the breadth of company structures and hierarchies. Minority groups can be underrepresented, which can cause a serious skew in the views heard by the board.
- Different voice channels need to be well integrated with one another, so depth of coverage is also crucial – ensuring that worker directors, NEDs and advisory panels are both well aligned with each other as well as with staff surveys and other general HR and engagement practices. At the same time, board-level engagement practices should not cut across core trade union activities, but can beneficially include trade unions while still respecting their parallel role.

- The board-level engagement mechanism, whatever its form, needs to allow for regular input from the workforce, so frequency is important too, and particularly in response to rapid changes in circumstances, such as those presented by COVID-19 during the past 12 months.
- Workforce representatives, whether sitting on a panel or as worker directors, should be chosen with some input from the workforce. This can mean direct election, or indirect election through lower tiers of workplace forums. Even in cases where management might think they have good reasons to appoint workforce representatives themselves, there are ways to secure workforce input into this decision through nominations or consultations.
- Energies should be focused principally on the substance of workforce engagement, not the process. Initiatives should be developed not merely in order to tick a box in response to a Code provision, but rather as a means to fully embed the voices and concerns of workers in boardroom deliberations, and in turn to see these reflected in management policy outcomes.
- Agenda setting, either for panels or for consultation meetings between NEDs and the workforce, is best when there is a balance between topics of management interest and topics of workforce interest. Board representatives should be prepared to both ask and answer questions, in order to promote two-way dialogue.
- A meaningful dialogue with the workforce also requires an effective feedback loop, whereby employees are properly informed about the relevant issues before being asked for their feedback, and the results of that employee voice are in turn communicated back to the workforce in a clear and consistent manner.

This report has highlighted cases where each of these points is handled well. There is clearly scope for learning from these good practice examples, and all firms would benefit from a greater awareness of what other companies in similar situations are doing. Our findings suggest that what matters is not the specific engagement mechanism per se, but rather how it is used. A worker director may be the most direct means of bringing the worker voice to the boardroom, and as such it is often assumed to be the more robust and effective option, especially when compared, for instance, to assigning this responsibility to a non-executive director. However, our findings suggest that we need to consider the operation of different mechanisms in particular cases, and look at how far they align with existing engagement and consultation practices, before drawing any definitive assessment. A worker director might be able to articulate the views of the workforce, or alternatively they might effectively be a 'lone voice' (useful in bringing the perspective of a particular employee to board discussions, but not speaking on behalf of a wider constituency). Equally, the role of the designated NED can vary widely. In many cases it does indeed appear to be a rather perfunctory response to the Code, with the activities of the NED extremely limited or ill-thought through, but in other cases there is clearly some innovation and effort, especially where NEDs operate as a link or conduit between the board and a properly constituted advisory panel, whereby they can reflect the worker voice in board deliberations and provide board members with some insight into wider workforce sentiment.

That said, the NED remains a NED, and NEDs will usually be selected from the same professional and corporate background as other directors, with often multiple boardroom appointments. Indeed there has been evidence for some time of a prevailing one-dimensionality in the constitution of most boards, with minimal, if any, representation from stakeholders other than investors and executives. In addressing the way boards make appointments and develop succession plans, the revised Code states that these should 'be based on merit and objective criteria and ... should promote diversity of

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‘Many FTSE 350 annual reports appear to show firms treating workforce engagement almost as a side issue, relegating it to a single row in a predictably formulaic table of stakeholders.’

gender, social and ethnic backgrounds, cognitive and personal strengths’.⁸ There is also a strong case for the traditional boardroom monoculture to be challenged by dissenting voices and a ‘diversity of thought’, in order to prevent ‘group think’ and promote more democratic governance and decision-making. Relatedly, it would be refreshing to see firms consider appointing non-executives from a wider range of employment relations backgrounds, such as former trade union representatives. In light of these concerns, the TUC has long argued that robust workforce engagement requires that employees have direct and unfiltered access to boardroom deliberations, as worker directors, and that those employees are chosen by their peers rather than selected by management. Our findings suggest that the majority of firms remain unwilling to voluntarily consider this option.

Relatedly, we have also gained some insight into how workforce engagement at board level sits alongside other voice mechanisms, including the representation of worker interests through formal consultation and collective bargaining arrangements. While the introduction of a mechanism to bring worker voice into the boardroom might be perceived as a threat or a challenge to established channels of worker representation, we have also seen examples of strong trade union involvement, based around the terms of an explicit partnership agreement between management and unions. Our study provides only a limited snapshot, but it suggests that these two channels are indeed complementary and that in combination they provide for fuller and more robust worker voice within firms. Trade unions can work effectively with the grain of board-level workforce engagement, and we would argue it is in their interests to do so. If firm governance is to develop in a more long-term and stakeholder-oriented direction, this should include the right of employees to consultation and representation over their terms and conditions of employment.⁹ Board-level employee voice can help to hold firms to these principles, fostering a virtuous circle whereby a worker perspective is embedded into both the governance and the management of the business.

Reflections on the purpose of workforce engagement and the challenges ahead

At the same time as recognising and learning from the many examples of good practice, we should not be blind to the fact that they are not reflective of all major companies. The firms that agreed to take part in our study and responded to our project survey are, by definition, a self-selecting sample, already interested and engaged in this subject, and believing they have a positive story to tell. The 17 firms in our stage C sample were always likely to represent ‘best practice’. But what about the hundreds of other companies to whom the Code also applies?

It is disappointing that so many FTSE 350 annual reports appear to show firms treating workforce engagement almost as a side issue, relegating it to a single row in a predictably formulaic table of stakeholders, and including boilerplate statements along the lines of ‘Engagement is measured through an annual survey ... The results are fed back to the board ... Where appropriate employee views are taken into account’. Many firms suggest that one annual employee survey and/or occasional site visits constitute an ‘alternative approach’ to workforce engagement, and that this is sufficient to explain why they have not adopted any of the three core options in the Code. Other firms state they have appointed a designated NED or established an advisory panel yet offer only the vaguest explanation of how these arrangements actually work. Moreover, while many firms are making genuine efforts to listen to their employees, and utilise a range of methods to gauge workforce sentiment on particular issues, evidence of how these processes have fed through to concrete changes that have benefited those employees remains harder to discern. The FRC expressed disappointment with corporate responses in its most recent

annual review of the Code in 2020, stating that ‘it is not clear from this year’s reporting how much thought was given to the effectiveness of the method chosen. There was little analysis of whether the likely method for engagement was the best one for the company to ensure that boards were made aware of key issues raised by the workforce. It was also unclear whether the board were able to feed back their views and decisions once made.’¹⁰ Our study suggests that, 12 months on, there is little reason to alter this overall assessment.

The remit of this project was to examine company responses to the requirements on workforce engagement in the revised Corporate Governance Code. Considered in terms of this particular focus, there are clearly pockets of good practice, and our case study firms were evidently committed to listening to their workforces and believed strongly in the benefits of effective employee engagement. However, in light of the relative lack of commitment shown in other firms, we can raise two broader questions: whether the current requirements provide enough guidance to support the spread of good practice among firms who wish to ‘do the right thing’, and, relatedly, how far a more robust regulatory framework might be required to prompt the more recalcitrant firms to take action? This brings us to the effectiveness of company reporting in principle, and to broader debates around the role of company law and regulation in corporate governance reform.

In its most recent 2020 review of the quality of company reporting, not only around workforce engagement but across other areas too, the FRC was again critical, highlighting the tendency towards rather formulaic statements and vague explanations around impact and outcomes.¹¹ Under a voluntarist regulatory framework there will of course be examples of good practice and innovation, and many of our case study firms exemplify this, but it is evident that other firms are all too easily able to sidestep any real commitment to improving workforce engagement. This is all the more disappointing if we consider again the well-established benefits which employee voice at the board level can deliver.¹² As we have seen in our project, employees bring to the board an in-depth knowledge of the company they work for and the environment in which it operates, making them well placed to contribute to strategic and operational decisions.

There is now much discussion in policy and business circles around the potential for corporate governance reform to contribute to improvements in corporate resilience and sustainability.¹³ Since the financial crisis of 2008 there have been widespread calls for a more ‘responsible capitalism’, for a shift away from shareholder primacy to a more pluralistic governance model, and for a reformulation of the purpose of the company towards serving stakeholders and the public interest.¹⁴ While a great deal of commentary has focused on the role of short-term investors, the incentives and duties of company directors, and transparency in executive pay, enhanced worker voice in company decision-making and governance structures remains a core element of progressive change.¹⁵

As the FRC transitions to becoming a new regulator – the Audit, Reporting and Governance Authority – it may receive further powers to engage with companies about the quality of their governance reporting. Demands are likely to grow for companies to give greater priority to long-term sustainable business models which incorporate employee interests, and to making boards and managers more accountable against this revised corporate purpose. Reporting and signing off against such a strategy on an annual basis are increasingly expected to form a core part of a company’s non-financial report.

In this sense, improvements in workforce engagement clearly dovetail with other aspects of the Code, namely around corporate purpose and values. The role of the board is not to run the company but to challenge the executive. Boards therefore have a key role to play in rebalancing corporate purpose in a more sustainable and stakeholder-oriented

‘Employees bring to the board an in-depth knowledge of the company they work for and the environment in which it operates, making them well placed to contribute to strategic and operational decisions.’

‘Demands are likely to grow for companies to give greater priority to long-term sustainable business models which incorporate employee interests.’

direction. Worker voice in the boardroom can encourage board members to incorporate an employee perspective into their discussion of strategic issues, ask better questions of the executive team and feed into the executive a different set of priorities. Moreover, in the context of increasing interest in ESG on the part of investors, firms will require metrics that are not purely financial but which also reflect employee interests and wellbeing, issues which have been brought into sharp relief during the COVID-19 pandemic, and which see these as the key risk factors that they are. This project has focused on just one piece in the corporate governance jigsaw. Our research has revealed progress, but also some resistance and scepticism. These debates will continue, but the direction of travel appears set and we would hope that the coming period will witness a further strengthening of workforce engagement across UK businesses.

Appendix

Methodology

Stage A – Company reports

At stage A, our principal concern was to extract information from annual reports to establish the choices firms have made regarding workforce engagement mechanisms, the stated rationale for the choice and any details provided on activities and outcomes over the 12-month period. All FTSE 350 company reports were accessed during August and September 2020. After discounting investment trusts (with no employees) and a handful of firms with fewer than 50 employees, a total of 280 companies remained, and these formed the basis of our analysis.

Stage B – Survey

At stage B, a questionnaire was developed to further illuminate aspects of firms' workforce engagement arrangements beyond what could be gleaned from the annual reports. We asked mostly closed-ended questions to enable easier coding and tabulation of results, providing quantitative rather than qualitative data, for example around topics covered in discussions at board level (from a list of options), who is responsible for leading these discussions and how often issues arising from the workforce engagement mechanism are raised. The survey was hosted digitally, with an email invitation to participate sent to all FTSE 350 firms, targeting the Company Secretary or a senior HR contact at board level. Responses were received during September and October 2020. In total 70 firms participated and answered at least half the questions, a response rate of 20%. The results were aggregated and tabulated, breaking them down by sector, firm size and type of workforce engagement.

Stage C – Case studies

At stage C, we engaged directly with key individuals to gain more detailed information about how workforce engagement policies and processes have operated in practice. We conducted interviews at 17 firms over a five-month period from October 2020 to February 2021. All interviews were conducted online using video conferencing software (in most cases Zoom or MS Teams). In total 41 interviews were conducted, principally with Company Secretaries, Senior HR Directors, Non-Executive and other Directors, Employee Directors and other employees involved in advisory panels and staff forums. The sample of firms represents different industrial sectors and different sizes of company across the FTSE 350. These interviews would take a semi-structured format to allow a flexible exploration of each firm's circumstances and experiences while still covering common issues across all the cases. Stage C allowed us the opportunity to ask more probing and open-ended bundles of questions, exploring in more depth why particular approaches to workforce engagement had been chosen, how the arrangements work in practice, how information is fed up to and down from the board, the scope of topics covered by dialogue with the workforce and any emerging discussions around amending the approaches for the coming period.

Roundtable

In addition to these three stages, in February 2021 we brought together representatives from 13 of the case study firms to discuss common issues and challenges in workforce engagement. This online roundtable event involved both management and workforce representatives in a structured and moderated discussion, with breakout groups discussing the reasons firms adopted different approaches, examples of what has worked well, as well as problems that have been encountered. This session was useful in helping us to better understand what is driving firms to take different approaches to workforce engagement and, importantly, illuminating the role of organisational and sectoral context in explaining how initiatives that work for some firms might not hold true for others.

The case studies

The 17 cases come from a range of sectors including insurance, mining, IT services, beverages, hotels & entertainment, passenger transportation, multiline utilities, water utilities, healthcare equipment and food retailing.

They also cover a range of sizes in terms of number of employees. Five have fewer than 10,000 employees (one has fewer than 1,000). Seven have between 10,000 and 100,000 employees. Two have approximately 100,000 employees and a further two have over 400,000.

In order to preserve the anonymity of the cases, we have not included a table matching sector, size and engagement mechanism for each case, but we indicate below how the total of 41 interviews was split across the 17 cases:

Company	Mechanism	Interviewees
N1	NED	ER Director
N2	NED	Designated NED Group EE Director
N3	NED	Designated NED Reward Director 2 Employee Reps
N4	NED	Company Secretary Chief People Officer Designated NED
N5	NED	Group HR Director Company Secretary
P1	Panel	NED Panel Member
P2	Panel + NED	Designated NED Panel Member Head of EE
P3	Panel + NED	Designated NED Panel Member
P4	Panel + NED	Group HR Director HR Director
P5	Panel + NED	Designated NED Chief People Officer 3 Employee Reps

Company	Mechanism	Interviewees
A1	Alternative Arrangements	Company Secretary Chair of Panel
A2	Alternative Arrangements	HR Director
A3	Alternative Arrangements	Chair Company Secretary Head of HR
A4	Alternative Arrangements	Chair of Co. Forum Operations Director
A5	Alternative Arrangements	Chair of Board Committee 2 Employee Reps
W1	Worker Director	Head of HR Worker Director
W2	Worker Director	Head of HR Worker Director

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