

Financial Reporting Council

Consultation on the Wates Corporate Governance Principles for Large Private Companies

About Investors in People

1. Investors in People has set the Standard for people management for the last 27 years
2. In 1991 the Employment Department was tasked with developing a national standard of good practice for training and development; the result of this process was the creation of Investors in People. By 1993 Investors in People UK had evolved into a business led, non-departmental government body.
3. In early 2017 IIP transitioned into a Community Interest Company, strengthening our social objectives, evolving our scope from a sole focus on people management, into a view of how these strategies benefit wider communities
4. IIP currently works with a community of over 9000 organisations operating across 58 countries, with a total community of nearly 2,800,000 employees
5. At IIP, our mission is to help organisations succeed by unlocking the potential of their people. We support businesses in this endeavour with our framework and Standard, which set out key indicators against which organisations can measure their performance in the areas of leading, supporting and improving.
6. Developed with Professor Andre de Waal, an expert in performance management and high-performance organisations, our Standard defines what it takes to lead and support people to maximise their workplace potential in pursuit of organisational and community prosperity
7. In February 2017, IIP (with support from the Department for Education and the Department for Transport) began a process of analysis into apprenticeships as an education model, with the ultimate intention of formulating a specific framework for employers wishing to guarantee quality schemes for apprentices
8. In Autumn 2017, Investors in People began formulating a new product offer, with the aim of creating a useful, engaging and free tool for SMEs. This offer intends to make the Investors in People tenets of good people management accessible to all organisations, leaders and managers - providing focus, resources and performance tracking - regardless of size and budget.
9. The aim of the Freemium product is to support our social mission to improve and support all businesses in the UK to evolve into productive and supportive workplaces for their employees.
10. Investors in People delivers accreditation against a tried and tested Standard. A substantial report is produced at the end of this process which details the people management pillars that an organisation must have in place to support staff at all levels. This report is produced by IIP's trained Practitioners and has many applications for managers, the board and beyond.

Executive Summary

11. Investors in People believes that there is clear scope for boards in organisations of all sizes and sectors to play a more positive role in the day to day practices of the companies that they serve. The principles set out in the Consultation document reflect strongly the key areas where board members could feed in more proactively to business objectives, workplace culture and people management principles.

12. The recommendation that boards focus more on purpose (ensuring the company aligns its values, strategy and culture) coincides strongly with IIP's view that the oversight offered by a board could drive greater strategic and cultural alignment.
13. Secondly, developing a diverse, balanced and competent board is an important milestone for organisations. The Consultation document defined this principle as 'composition'. The IIP Framework champions leadership as one of its three key indicators. This leadership transcends the responsibility of senior managers and should also be applied to board members. Individual board members and the board as a whole have the capacity to make valuable contributions to the work of an organisation in the short, medium and long term.
14. Importantly, the Consultation document outlined that a board's policies and procedures should 'support effective decision-making and independent challenge'. For this to be the case, a board must have significant access to documents detailing the day-to-day running of the organisation. This is where the insights provided by the IIP assessment report can be so useful; boards can only challenge practices if they know what those practices are.
15. The principle around remuneration is also important for the board understanding how well the culture and ethos of an organisation are aligned to external goals and objectives. Therefore, the board must understand pay as well as broader working conditions. Once again, organisations must ensure that the board has access to this information and how it looks on a practical level. This is why bringing employee voice in to the boardroom is so important.
16. Beyond a focus on internal working conditions, role structure and other cultural principles, IIP agrees with the principle that board members have a responsibility to engage in meaningful discussion/ collaboration with interested parties and stakeholders. To ensure the mission of an organisation is successfully translated from the four walls of an office environment out into industry and for consumers, board members must leverage their connections to positive ends.
17. Investors in People believes that the six principles outlined by the Wates Consultation document appropriately address the main components necessary to achieve powerful business leadership and organisational performance. IIP can support the effective embedding of these principles as a result both of its process, Practitioner intervention and the production of an in-depth assessment report.

Investors in People, The Standard: Creating Insights

18. Aim of IIP: A blueprint for organisations wanting to bolster business success by evolving their people management approach. Organisations want to work with us because of the recognition that comes from an internationally respected standard of people management and also the competitive advantage that could be achieved once people practices are improved.
19. In 2015, IIP launched its Sixth Generation Standard that was developed in collaboration with high performance management expert, Professor Andre De Waal. A High Performing Organisation (HPO) is defined as: "an organisation that achieves financial and non-financial results that are exceedingly better than those of its peer group over a period of five years or some, by focussing in a disciplined way on what really matters to the organisation". IIP has built on this with Professor De Waal and created a Standard that supports organisations make the most of their people potential and bolster long-term organisational resilience.
20. Built on the three principles of Leading, Supporting and Improving, IIP chose to develop this high-performance Framework in order to ensure that human potential is respected and

allowed to flourish and to recognise that adequacy is not enough for organisations who want to achieve long-term business success.

21. Principle 1 is 'Leading' consisting of the indicators 'Leading and inspiring people', 'Living the organisation's values and behaviours' and 'Empowering and involving people'.
22. Principle 2 is 'Supporting' consisting of the indicators 'Managing performance', 'Recognising and rewarding high performance' and 'Structuring work.'
23. Principle 3 is 'Improving' consisting of the indicators 'Building capacity', 'Delivering continuous improvement' and 'Creating sustainable success'. To stress the dynamic nature of the business environment, IIP is also introducing the maturity model which denotes that an organisation 'journeys' through levels of accreditation which run in parallel with increasing levels of integrated and consistently applied advanced HRM practices throughout the organisation.
24. There are four maturity levels, ranging from Stage 1 'Developed' (the appropriate principles and practices are in place and communicated, and people and leaders know what is expected of them); to Stage 4 'High performing' (the principles and practices are fully integrated with other business practices and people and leaders take accountability for delivering consistently positive results).

The IIP Base Question Set

25. IIP's base question set for employees forms a core part of the accreditation process. Comprising of 38 questions, the base set seeks to establish how well an organisation lines up with the tenets of the IIP Standard. It is sent out to employees digitally which maximises the potential number of responses by minimising disruption to daily workplace demands.
26. The IIP 38 question set is designed to provide our clients with an optimal understanding of how their people feel about the organisation that they're working for. The results of this survey consistently offer insights on areas from leadership perception to satisfaction with role structure and beyond.
27. Of question asked to respondents, those that would be of particular interest to board members would be:
 - The level to which behaviours not in line with an organisation's values are challenged by employees at all levels
 - The extent to which employees are aware of the organisation's vision and objectives
 - How reward and recognition strategies are perceived by employees
 - How roles are structured and whether this is conducive to collaborative team work
28. These areas give boards the understanding necessary to work more proactively in ensuring that internal values are acted upon within the workplace and magnified externally in the quality and purpose with which employees conduct their work. The value of the headlines generated by an employee survey is manifold. Rather than relying on the reports of management, the board is able to gain an overview of the real opinions held by employees. It is IIP's contention that honest feedback breeds meaningful action and tangible results.

The IIP Assessment Report

29. For the FRC Wates Consultation to be truly effective there must be a greater emphasis on the methods of observation that boards can use to gain insight into the way the organisations that they serve are run. It is our contention that not only is the IIP Assessment report a

valuable tool for business leaders and the HR team, it can also be effective and keeping the board connected to the day-to-day running of the business.

30. The report itself is split into the following useful sections:

- **Executive Summary:** A stand alone section which should offer the most concise supporting evidence detailing why the organisation has attained the accreditation that it has.
- **Organisational context:** This section sets out the client's IIP journey; why are they undertaking the project and what they hoped to achieve. It sets out an organisation 'as is' and what it hopes 'to be' as a result of working with IIP. Approaches to strategy and staff are set out and analysed.
- **Organisation's Self-diagnostic:** This includes the summary of where the client sees itself currently performing against the framework. I.e. are they 'Established' in leading and inspiring? Are they 'Advanced'? This is a valuable tool for insight as it allows organisations to take an introspective look at the areas they feel they perform well in.
- **Detailed Assessment Outcome:** This section sets out the IIP benchmarking score which gives organisations an understanding of how their people management principles stack up against the IIP community. It also provides the headline results from the online assessment which will give board members a flavour of how employees at all levels really feel about the way the organisation supports them.
- **Implications + Recommendations:** Here the author of the report outlines a set of recommendations based on the outcome of the assessment process. These might suggest ways that an organisation can boost people management principles and perhaps strive to attain a higher IIP Award at the time of their IIP renewal process in three years. The suggestions made here are a useful summary for boards who want to understand how to introduce effective changes based on employee feedback.

Recommendations

31. The six principles outlined in the FRC's Wates Consultation document make significant headway in addressing the potential room for discord between board and the organisations that they serve. If a board is to perform its function as a check and balance on the way that senior managers are running an organisation, it must have full and proper access to information on how the organisation is run day to day, as well as how employees feel about the organisation and their place within it.

32. For the result of the Wates Consultation to be meaningful, there must be advice offered on how organisations can collaborate more closely with their board and communicate on everything from business objectives to employee satisfaction. Indeed, the insights offered by the IIP Assessment report provide a detailed account of the areas in people management strategy where senior leaders are performing well and not so well. Moreover, the results of the Online Assessment made up of the IIP38 question set will provide direct insight into how employees feel.

33. In terms of aligning IIP's offer to the six principles, this is how the model could support the intentions of James Wates to evolve board practice into a force for good in society:

- **Purpose** – *An effective board promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.* Working with IIP can secure the understanding between the high-level objectives of an organisation and its day to day priorities. The Assessment Report brings this understanding into the board room.
- **Composition** – *Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity*

to make a valuable contribution. Effective leadership is flexible, dynamic and inspiring. IIP offers significant guidance and advice for organisation looking to improve their management under its 'Leadership' principle of the Framework.

- **Responsibilities** – *A board should have a clear understanding of its accountability and terms of reference. Its policies and procedures should support effective decision-making and independent challenge.* For a board to be able to provide a rigorous independent challenge, it must first have access to the policies, strategies and accountabilities to which it should be applying scrutiny. The outcome of the Consultation should stress that organisations must provide their boards with regular updates on all areas of the business. As part of the IIP assessment process, organisations are asked to collate and present their internal working documents and policies to their Practitioner as supporting evidence. Many organisations find this a useful exercise in reviewing existing policies and understanding whether they're fit for purpose.
- **Opportunity and Risk** – *A board should promote the long-term success of the company by identifying opportunities to create and preserve value and establish oversight for the identification and mitigation of risk.* If a board is to fulfil this function it must understand the essence of the business and the challenges and risks it faces day to day. It is important to include employee insight when developing this level of understanding. Organisations could consider an employee survey carried out by an external third party to improve response rate and trust in the process.
- **Remuneration** – *A board should promote executive remuneration structures aligned to sustainable long-term success of a company, considering pay and conditions elsewhere in the company.* Once again, evidence and oversight of policy is vital in achieving the successful implementation of this principle for the board of any organisation.
- **Stakeholders** – *A board has a responsibility to oversee meaningful engagement with material stakeholders, including the workforce, and have regard to that discussion when taking decisions. The board has a responsibility to foster good relationships based on the company's purpose.* To be effective in this function, a board must understand long, medium and short-term business objectives in order to best assess how they could feed in to the attainment of these aims. There must also be a reporting structure in place whereby senior leaders in an organisation are able to see the engagement plans that board members intend to implement and can provide feedback/ offer opinions in how to get the best out of this engagement.

34. In summary, the six principles outlined in the Wates Consultation document adequately cover the key areas necessary to promote the input of boards into the running of an organisation. It actively encourages board members to strategise and innovate a long with senior business leaders in how to improve work for employees and boost performance more broadly. However, for the six principles to be adequately integrated, there must be a clear bridge of reciprocal information between senior managers and board members. This bridge should be comprised of: internal policy documents, business objectives, strategy outlines and most importantly, employee voice. Only when all of these elements are present can a board function effectively to meet the six demands set out above.

Answering the Consultation Questions in brief...

2. Are there any areas in which the Principles need to be more specific?

In IIP's opinion it is more necessary for the Principles to remain broad so as to encourage as much activity beneath them as possible. Where more specificity is needed is around the advice provided to

the organisations who sign up to the principles. There must be support and a framework in place for creating the reciprocal communication that is necessary between business leaders and board members. This will ensure that going forward, each individual knows what is expected of them and also how they can work most proactively to achieve organisational ambition and make the organisation a true force for good in the broader community.

6. Do the Principles enable sufficient visibility of a board's approach to stakeholder engagement?

As above, it is important that a reciprocal and collaborative partnership is maintained between senior managers and the board of an organisation. Just as the IIP Assessment report can be used to inform board members, so too the board should produce update statements or the like which can be fed back into the broader business in order to keep employees of all levels up to date with how the board is striving for the same objectives. Not only will this foster an improved culture of collaboration, it will also drive the motivation to succeed, creating a sense of momentum behind an organisation's purpose.

8. The Principles and the guidance are designed to improve corporate governance practice in large private companies. What approach to the monitoring of the application of the Principles and guidance would encourage good practice?

This is the area of the consultation where IIP feels that it can lend its insight most usefully. Utilising an external accreditation model/ third party people management support can give the framework of support necessary when establishing new internal processes. As detailed above, the IIP accreditation process at all stages can act as a conduit of opinion between board members, senior managers and employees at all levels of an organisation. The IIP38 question set provides an idea of how employees feel in the core areas of business and people management; these opinions are easily distilled into headline statements that can be communicated to a board. The interview process followed by the collation of an Assessment Report provide further insight and detail. The usefulness of this sort of document is that it provides summaries of key business areas that are accessible to any one picking up the document, regardless of prior business experience.

The three- year assessment and renewal cycles at IIP provide organisations with enough time between processes to implement the recommendations of their practitioner so by the time of their next assessment, they are able to demonstrate tangible policy changes and the like. This emphasis on evidencing a process of meaningful reflection on previous results and the delivery of new, more informed policies is a driver of both productivity and employee satisfaction. Done properly, IIP can create a virtuous circle of honest feedback, open communication, deliberate change all leading to better business performance.

Beyond IIP, it is clear that there must be a framework for organisations to utilise which allows employees to understand how the board is acting in the organisation's interests and how the organisation as a whole intends to meet the Principles.

Summary:

35. To date, corporate governance has had limited success in the way it challenges how an organisation's people management strategy is designed, delivered and received. Investors in People offers a clear framework, researched and developed with industry experts, to address this gap. The tools we have at our disposal (expert practitioners, digital assessment platform and assessment report) mean that we can help boards forge the missing link between company performance and people management.

36. Having an external, trusted framework is beneficial in many ways. Indeed, for a board to be able to deal effectively with negative press stories, they must have full possession of the facts. However, they must also have a working, in-depth knowledge of how the organisation works day-to-day. Only then will they be able to act in the best interests of the organisation to mitigate the negative attention by counteracting it with accurate insight. This situation is where the IIP assessment report becomes invaluable, as a concise record of where the company sits in relation to its people management practices. When deployed properly, this insight can be an invaluable tool in communicating what an organisation does well to an external audience.
37. For a board to fulfil its duties in terms of checks and balances on an executive, it must be able to trust that the data and insight that its drawing is reliable and valid. This is where bringing in the support of a third- party consultant can be a real asset. At present, boards rely on the internal employee engagement surveys as a mark of how satisfied people are, however these are open to manipulation and lack the impartiality of a third- party assessment. Moreover, research has shown that internal surveys have an average participation rate of 25-35%. It is therefore in the company interest to have insights with integrity from which a board can build its challenges to the executive. This point is evidenced in a case study from an IIP Client (Dental 32) who said of IIP's approach: "If there's a fresh approach with a third party, staff feel more engaged and enthusiastic about a change process."¹
38. IIP gives the assurance to internal management and corporate governance alike that the leadership, culture and people management of an organisation are based on the right practices that embody and reflect the company's values internally and externally.

¹ <https://www.investorsinpeopleacademy.com/resources/share-and-inspire/10-tips-successful-succession-planning>