

Response to Financial Reporting Council consultation on proposed revisions to the UK Corporate Governance Code

February 2018

The Institute of Customer Service welcomes the opportunity to respond to the Financial Reporting Council's proposed revisions to the UK Corporate Governance Code.

We endorse the proposed revisions to the Code that acknowledge the importance of engaging with stakeholders generally, and workforces specifically.

However, The Institute believes that customers should be specifically identified as a relevant group of stakeholders, and customer experience should be explicitly recognised as a boardroom issue, with strategies set, measured against and reported upon.

The Code should also set out ways that workforces should be engaged with, beyond merely outlining mechanisms for achieving employee representation.

The Institute's research demonstrates the importance of customer service and engaging employees:

- Higher levels of employee engagement are linked to higher levels of customer satisfaction, positive buying behaviour, business innovation and employee performance.
- Organisations with higher than average levels of customer satisfaction see larger growth in turnover and employee productivity.

This demonstrates the importance of customer service, and that enhancing the customer experience should be integrated into corporate governance through the Code.

Q3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?

The Institute of Customer Service welcomes the proposed methods set out in Provision 3 for gathering the views of a company's workforce. The Institute's research demonstrates that high levels of employee engagement lead to stronger customer satisfaction, customer loyalty and business performance.¹ However, the Code could and should set out what good employee engagement looks like, and not just suggest mechanisms for facilitating that engagement.

The Institute believes that this would ensure organisations can drive better performance and productivity because for every one point increase in employee engagement, there is a 0.41 point increase in customer satisfaction.²

New research also shows that customers' perceptions of employee engagement strongly influence buying behaviour. 67% of customers who had a great experience with an employee say they will buy again from that organisation – compared to 11% for those who had a bad experience.²

¹ The Institute of Customer Service, 2017. *The Customer Knows: How employee engagement leads to greater customer satisfaction and loyalty.*

² The Institute of Customer Service, 2017. *The Customer Knows: How employee engagement leads to greater customer satisfaction and loyalty.*

A report by MacLeod and Clarke also highlights employees having a voice in an organisation as one of the four essential elements of strategies to develop employee engagement.³

Employees need to feel listened to, involved in decisions which affect them, and empowered to contribute ideas which improve customer experiences and organisational performance. It is clear from Institute research that engaged employees equip organisations to navigate turbulent conditions and are central to long-term survival.

Appointing directors from the workforce, establishing formal workforce advisory panels or designating a non-executive director for the workforce – as suggested by Provision 3 – are all ways to facilitate greater levels of employee engagement.

Simply having a director, non-executive director or advisory panel in place will not in itself support and enhance employee engagement, however. Companies should in practice seek to:

- Involve employees in practical issues that affect them.
- Encourage collaboration and ideas to solve problems.
- Involve employees in identifying opportunities for innovation and business improvement.

Given the proven link between employee engagement, customer satisfaction and business performance, The Institute believes it is important that the Code should set out in a greater level of detail the ways that employees should be engaged with.

General comments on culture and the importance of customer service – especially pertaining to Section 1, Principles A & D, and Provisions 2 & 3.

The Institute welcomes proposals to revise the Code to acknowledge the importance of engaging with stakeholders generally. However, we believe customers should be specifically identified as a relevant group of stakeholders, and customer experience should be explicitly recognised as a boardroom issue within Principles A and D.

The Institute's research shows that organisations with higher customer satisfaction than their sector average have achieved stronger turnover growth than their peers, from a year-on-year, three-year and long-term perspective.⁴

Over a period of five to eight years, organisations whose customer satisfaction averaged at least one point better than their sector (on the UKCSI's 100-point scale) achieved average compound turnover growth of 4.7%, compared to 3.5% for those with lower than average customer satisfaction.

Organisations with higher customer satisfaction have also demonstrated better employee productivity. Organisations with higher average customer satisfaction have seen a 114% larger rise in revenue per employee and a 47% larger rise in human capital value add than those organisations that have a lower than average satisfaction score.

This demonstrates the importance of customer service and highlights why customer experience should be integrated into corporate governance through the Code. In particular:

³ MacLeod, D. and Clarke, N., 2009. *Engaging for Success: Enhancing performance through employee engagement: a report to government.*

⁴ The Institute of Customer Service, 2017. *The Customer Service Dividend: How organisations have achieved ROI and greater productivity.*

- There should be appropriate customer experience expertise and accountability at board level.
- Customer experience measures should be set, which reflect the organisation's purpose. The [UKCSI](#) has 30 metrics covering staff professionalism; quality and efficiency; ease of doing business; timeliness; problem solving; complaint handling; and attitudes towards trust and reputation.
- Customer experience strategy and results should be included in annual reports and accounts, both because of their correlation to wider business performance and as an indicator of future performance.

The UKCSI can be used to benchmark customer experience. The UKCSI measures customer satisfaction across 13 sectors of the economy and is published twice a year by The Institute. It is based on an online, representative, survey of over 10,000 consumers. Customers are asked to rate their experience of dealing with a specific organisation in the previous three months. Customers rate their experience for over 30 metrics and metrics reflect the priorities customers have identified as the most important attributes of customer experience.

Companies set targets, design strategies and benchmark performance for issues of importance, and customer experience and service should be on a par with these other areas of business performance.

About The Institute of Customer Service

The Institute of Customer Service is the professional body for customer service delivering tangible benefits to organisations and individuals so that our members can improve their customers' experience and their own business performance.

The Institute is an independent, not for profit, membership body with a community of over 400 organisational members, over 17 percent from the FTSE 350 and over 3,000 individual memberships – from the private, public and third sectors.

The Institute provides members with a range of products and services to help organisations improve their business performance and the experience they give their customers:

- Benchmarking
- Accreditation
- Professional Qualifications
- Research and Insight
- Training
- Networking Events

The Institute also holds an Annual Conference and organises the UK Customer Satisfaction Awards.

For more information about The Institute of Customer Service go to:

<http://www.instituteofcustomerservice.com>

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