

## **ACAS RESPONSE TO CORPORATE GOVERNANCE CODE CONSULTATION**

Acas is delighted to respond to the Financial Reporting Council's (FRC) consultation on its revised corporate governance code and accompanying guidance on board effectiveness.

As an impartial, non-departmental, public body with a statutory duty to improve employment relations in Great Britain, Acas' interest in the revised draft code and guide centers on the aspects relating to worker voice and how this can best be represented at board level. We have considerable practical experience of systems of worker representation and how these can be made to work successfully and we would therefore like to offer some suggestions for improvements that we feel can be made to the draft code and guide.

There is extensive evidence for the benefits that independent worker voice can bring to a company's performance and prospects. Allowing workers a voice in company affairs not only provides a source of creativity and innovation, tapping as it does into their knowledge and experience of what works, but also promotes trust and contributes to a stronger sense of commitment to their work and to the wider organisation. It is therefore in a company's own best interests to establish methods by which workers' views can be gathered and taken into account both by executive managers of the company and the board of directors. Whilst these benefits are alluded to in the revised draft code we feel it is important that they are made more explicit, perhaps in the introduction, as a way of underpinning and promoting the importance of the provisions and principles about engaging with the workforce that come later in the code.

Turning to these principles and provisions, and specifically those in section 1 on leadership and purpose, Acas would suggest that the focus on raising concerns might be balanced by reference also to making suggestions and providing front line insight. And in regard to raising concerns, also it would be helpful if principle D (and the following provisions) included clear reference to the workforce being able to raise concerns and contribute thinking on issues other than management and colleagues, important though those are, for example in relation to the wider strategic direction and governance of the company. Whilst it is right that workers should be able to raise concerns about individuals with the board they will also have views on the actions and operation of the company as a whole and it is important that these are heard as well.

Following on from this point it is also essential for the credibility of any worker voice arrangement that the board should respond to input, and in particular to any concerns that are raised. This does not of course mean that the board has to take action on all concerns that are brought to its attention, nor that the board – as a non-executive governance body – should infringe on the executive role of the leadership of the business. It is, however, good practice to show that they have considered the points raised by the workforce and are willing to provide an explanation if no action is taken. This is a fundamental principle of good workforce communication and we would urge the FRC to reflect this point in both the revised code and accompanying guidance.

On the accompanying guidance and specifically the section relating to relations with the workforce and gathering the views of workers, we have a number of suggestions to offer. The first and perhaps most important is the need for the guidance to recognise that in many of the companies covered by the code there will already be existing worker communication and consultation arrangements in place and in some companies there will be recognised trade unions which engage in collective bargaining. The guidance cannot of course make reference to all the many and varied voice systems that might exist, but it should make it clear that whatever system a company develops for communicating with the board it takes account of any existing communication and consultation arrangements that might be in place including where appropriate engagement with recognised trade unions. This is particularly important where a company decides to set up a formal workforce advisory panel as the means of engaging with the workforce. This point about taking account of existing communication and consultation arrangements should equally be made in the code itself.

The importance of new arrangements for communicating with the board not cutting across existing communication and consultation arrangements, including where appropriate collective bargaining arrangements, applies equally to provision 33 in the draft revised code which refers to the remuneration committee's role on workforce policies and procedures.

In developing successful worker representative systems it is Acas' experience that adequate training and support for both worker representatives and managers is crucial and this is a point that is worth reflecting in the guidance. Of course some companies may decide not to appoint worker representatives but where they do, it is important that they receive training, for example in understanding company finance and business decision making, and also how

to act as a representative. This latter point is often overlooked but, given that many employee representatives will have limited experience of working on committees or working in a collaborative meeting environment, support in developing these skills is vital in ensuring effective and constructive meetings. Representatives also need access to the workforce and time-off to undertake their work and these issues should be mentioned in the guidance. We appreciate that these may be seen as rather technical issues but companies will need help with them if they are to set up successful mechanisms for communicating with the board. If it would be helpful Acas would be happy to work with the FRC on developing this guidance or equally facilitating discussions with social partners on how this might be done.

We note that the guidance references the appointment of a single director to represent the views of employees. In some cases it may be more valid to appoint more than one director to represent a wider range of views, and to reduce the pressure on a single individual

Finally in para 27 of the draft guide you provide a list of possible sources of information a company board might look to and trade unions and business organisations should be included in this list. Equally in para 35 you provide some examples of workforce engagement activities and this list should include a reference to recognised trade unions.

We hope that the views set out in this response will be of assistance to the FRC as it develops its code and guidance and we would be very happy to discuss matters further if that would be helpful.

**Acas**

**28 February 2018**