

# Designated NED

**2018 Corporate governance reforms**  
KPMG Board Leadership Centre



The *2018 UK Corporate Governance Code* focuses strongly on the duty of directors to have regard to a wide range of stakeholder perspectives when arriving at board decisions. In particular, the new Code calls for boards to establish a method for gathering the views of the workforce that would normally be either a director appointed from the workforce, a formal workforce advisory panel or a non-executive director with specific designated functionality.

This paper seeks to explore some of the issues boards should consider if thinking about designating one or more non-executive directors the task of understanding the views of the workforce (and potentially other stakeholders) and ensuring these are fed into the board's decision making processes. Other KPMG Board Leadership Centre papers look at the considerations surrounding workforce directors and workforce advisory panels.

## Seven considerations

**1. Clarity of role:** It is important to draw the distinction between designation of a particular function or activity and designating responsibility. Whatever function a designated non-executive director undertakes, the board as a whole have collective responsibility for its decisions and how they are reached. The board chair should pay particular attention to ensuring that all directors continue to remain engaged, challenge and contribute to the discussion. Looking more broadly, consideration should be given to how such a role is positioned with, and communicated to, the wider workforce - if expectation gaps are to be avoided.

**2. Appointment and remuneration:** What mechanisms should be in place for identifying and appointing the designated non-executive director? There will be implications in terms of the anticipated time commitment and it is a role likely to receive a degree of media attention and additional shareholder scrutiny. Nomination committees should carefully consider the expectations of the role and ensure the 'right' individuals are appointed. The board chair, with the assistance of the company secretary, should ensure that the selected individual is given an appropriate induction into the role and remunerated for the additional work involved.

The papers accompanying the resolutions to re-elect such directors should articulate the specific contribution they have made.

**3. Tenure:** For how long should the designated non-executive director be in role? There might be merit in rotating the role relatively regularly to widen the pool of non-executive directors directly benefiting from the additional insights and exposure that come with the role. By contrast, building the right level of trust between the designated non-executive director and the workforce may take time - so frequent rotation might not be beneficial.

**4. Engagement:** What arrangements should be put in place to both enable a designated non-executive director to understand the views of the workforce in advance of board discussions and - in the light of the potential expectation gap (wherein the workforce might expect affirmative action in response to their views) - demonstrate to the workforce how they have fulfilled their role without breaching board confidentiality? Advisory panels or workforce councils might be an appropriate mechanism to aid engagement – particularly in large organisations - but there are many practicalities involved (see later).

If the designated non-executive director engages directly with the workforce, will they have authority to speak on behalf of the board or will they be speaking in a personal capacity?

- 5. Wider communications:** How will the company demonstrate to shareholders how the designated non-executive director has fulfilled their role? This is important as it will inform the views of shareholders when they vote on the re-election of the director.
- 6. Reporting to the board:** Will the designated non-executive director report formally to the board as a whole on how they have fulfilled their brief – and if so in what format? Alternatively, will they simply be expected to feed what they have learnt into the board's discussions as and when relevant?
- 7. Support:** What support will designated non-executive directors need from the company secretary? If some form of workforce council is employed as a mechanism for helping garner the workforce perspective, think about travel, accommodation and hosting costs; the preparation of appropriate materials; secretarial support; interpretation costs for foreign employees; and time-off arrangements.

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