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Workforce directors

2018 Corporate governance reforms
KPMG Board Leadership Centre

A key tenet of the *2018 UK Corporate Governance Code* is that boards should establish a method for gathering the views of the workforce and that this would normally be a director appointed from the workforce (a 'workforce director'), a formal workforce advisory panel or a designated non-executive director. For many, workforce directors sit uncomfortably with the traditional UK Corporate Governance framework. Nevertheless, they can provide tangible benefits to companies. This paper seeks to explore some of the advantages provided by workforce directors together with some of the challenges.

Eight ways workforce directors add value

1. **Backing up the rhetoric:** "*Our people are our greatest asset*" rings hollow unless it is backed-up with action. Appointing one (or more) workforce directors can be a demonstrable statement to the whole workforce of their importance to corporate success (in the widest sense).

2. **Building trust:** Workforce directors can facilitate the buy-in of the wider workforce (and other stakeholders). Those who are able to articulate the complexity of the boardroom back to the workforce may be a catalyst for increasing trust in both the board, management and business at large. An engaged workforce – aligned with the company's values, strategy and plans – will most likely be a happier and more productive workforce.

3. **Different perspectives:** Employees are a rich source of ideas and knowhow. A workforce director familiar with life at the 'coal face' – whether through direct experience or better access – will most likely have a different perspective to traditionally sourced directors as to both the risks facing the business and how board decisions translate into operational behaviour. Workforce directors can also provide an alternative perspective on the company's relationships with other stakeholders. Think about who has day to day interaction with customers and suppliers? Who buys the company's products? Who lives in the same locations the company operates in?

4. **Broadening understanding:** All directors can leverage the structures put in place to help workforce directors engage with the workforce – whether that be workforce councils or some other mechanism. Directors engaging in a dialogue with the workforce will most likely have a better understanding of the business and this can only have a positive impact on both their oversight function and their ability to contribute effectively to the development of the company's strategy.

5. **Trusted advocates:** Workforce directors can be powerful advocates for the business – whether that be by providing a stronger bridge between the board and the workforce or by providing a different perspective in response to media and wider societal concerns.

6. **A chance to reflect:** Workforce directors can be a catalyst for self-reflection – whether that be about professional development needs, the effectiveness of board processes or behaviour around the boardroom table. Tangible outcomes might include greater clarity around individual (and collective) training needs, the use of 'plain English' and better board papers. Even experienced directors might benefit from a refresher on their responsibilities, including their duty to promote the success of the company for the benefit of members whilst having regard to other stakeholders.

7. **Diverse and different skills:** Workforce directors contribute to diversity in the boardroom and should help combat groupthink and unconscious bias. They might also provide a catalyst for bringing fresh – sometimes difficult to find – skills to the board. Beyond their ability to bring the voice of the workforce into the boardroom, workforce directors might bring experience of technology, innovation and disruption. Think creatively about the full gamut of skills and experience available.

8. **A first step:** A workforce director (or directors) might be a first step for boards seeking to better engage with, and better understand the perspectives of, all its principal stakeholders. While not a homogenous group, the workforce is arguably better defined than the wider group of stakeholders – they are more easily accessible and their experiences are up to date, relevant and generally aligned to the company's goals. Boards that reap positive rewards from better engagement with the workforce might feel more confident in employing new and innovative mechanisms to better understand the perspectives of other critical stakeholders.

Eight challenges to address

1. **Clarity of role**: Workforce directors are directors like any other – they are not workforce representatives. They share collective responsibility for the actions taken by the board, and have the same legal responsibilities and liabilities. Specifically, they are all required under s.172 to promote the success of the company in the interests of its members (the shareholders) albeit having regard to the interests of the workforce (and other stakeholders). This broad remit not only has an impact on the training needs of workforce directors (see below), but potentially creates an expectation gap within the wider workforce that may need careful attention.

2. **Nomination and appointment:** What mechanisms should be in place for identifying and nominating workforce directors? Options might include nomination by the workforce as a whole, individual business units or nomination by trade unions or some form of representative committee. Interesting dynamics arise in relation to International vs UK employees; and white collar vs blue collar employees. All appointments will be subject to shareholder approval irrespective of the process by which they were identified and nominated. The papers accompanying the resolutions to elect each director should articulate the specific reasons why their contribution is important for the company's long-term success.

3. **Terms of appointment:** As the role, responsibilities (and liabilities) of workforce directors are the same as those of other directors, *prima facia* one would expect that their terms of appointment– such as length of appointment, fees and other matters covered in their letter of appointment – should be the same as for other directors. Interesting dynamics might arise where a workforce director earns more in director fees than they do for their 'day job' including the potential to lose the confidence of sections of the workforce.

4. **How many workforce directors?** Having just one workforce director creates the risk of their view being marginalised whereas more than one might negatively impact board size, balance and the mix of skills and experience around the boardroom table. If more than one are appointed, consider staggering their appointments in the interests of continuity and succession planning. However many workforce directors are appointed, the chairman should ensure that the other directors do not become overly reliant on such directors when it comes to workforce related issues.

5. **Board composition:** Appointing workforce directors – who would not be independent as defined by the *UK Corporate Governance Code* – will have an impact on the balance of independent and other directors. This will be exacerbated if more than one workforce director is appointed.

6. **Induction and professional development:** The support needs of workforce directors will be very different from those of directors with prior board experience. This should be factored into the induction and training that they are offered to workforce directors. Consider encouraging other members of the board - and the company secretary - to provide them with support and mentoring

7. **Communication:** What arrangements should be put in place to both enable workforce directors to understand the views of the workforce in advance of board discussions and - in the light of the expectation gap referred to above - demonstrate to the workforce (and shareholders and other stakeholders) how they have fulfilled their role without breaching board confidentiality. Advisory panels or workforce councils might be appropriate, but there are many practicalities involved.

8. **Support:** What support will workforce directors need from the company secretary? If some form of workforce council is employed as a mechanism for garnering 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. What processes are in place to provide access to professional advice?

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