Breakfast with Frances O'Grady

Thursday 8 November 2018

KPMG Board Leadership Centre

Frances O'Grady, General Secretary of the Trades Union Congress (TUC), joined our FTSE350 Board Leadership Centre breakfast to lead a discussion on the lack of public trust in business and some of the areas that boards may consider addressing. Here we reflect on some of the key themes that emerged from the conversation.

Why is public trust eroded?

Executive pay: With working people being, in real terms, around £18 a week worse off than before the financial crisis and new economic forecasts by the Office for Budget Responsibility showing that UK wages are not expected to return to their pre-financial crisis peak until at least 2024 (the longest pay slump in two hundred years) it is not surprising that there is public disquiet around executive pay and a perception that the gap between those who lead companies and everyone else continues to spiral.

Poor economic role models: People in very senior positions, representing high profile organisations, hitting the headlines for all the wrong reasons (inappropriate behaviour, interest rate rigging, money laundering, etc.) serves to reinforce a lack of trust. The general public perceives such individuals as 'bad economic citizens', even though many companies recognise unions and together they negotiate decent standards at work – "*a story that never gets told*".

Employees are not the only ones to respond negatively to perceptions of poor corporate or leadership behaviour. Customers 'vote with their feet' and may, for example, choose to eat at restaurant where they can be assured that the staff will receive their gratuities or buy services and goods from businesses seen to be paying a 'fair' level of corporation tax.

Trust has to be earned: Trust requires empathy and a feeling of intimacy between two parties. Increasingly, employees may be feeling divorced from who they are ultimately working for, with front-line employees having little connection with those who pay their wages. With globalisation and takeovers meaning that the *"logo on the uniform"* can frequently change, corporate loyalty has been eroded. Employees want and need to feel a pride in their work and the organisation they represent.

Transparency and social awareness: Societal change (and social media) has created an environment where individuals are more comfortable in bringing issues out into the open and speaking up. Movements such as the #MeToo campaign are setting the standard for whistle-blowing; being much more proactive in exposing cultural failings such as sexual harassment. Other movements see the mistreatment of customers and employees being called out publicly – all leading to an erosion of businesses licence to operate. Rebuilding lost trust while under the spotlight of public and media scrutiny is not an easy task for any organisation.

How might trust be restored?

Positive employment and sound industrial policy: Less poor quality, low paid work, and more employment options that provide employees with dignity in their roles and careers as well as much more bargaining power by way of fair pay and conditions is a move in the right direction. Organisations choosing to pay not just the Living Wage but advocating the Real Living Wage can be an extremely positive step. (See here for KPMG's 2018 Living Wage research)

Other potential opportunities to support the next generation better might include well-structured apprentice schemes with real career opportunities at the end – something that combats the low expectations many young people have when it comes to employment prospects (and employers). Similarly, business needs to address the issue of highly qualified graduates working well below their qualification level in jobs that don't stretch, empower or train them. (See here for the TUC's recent blog, Five reasons why young workers are getting a raw deal.)

With uncertainty around the post Brexit labour pool, investment in future jobs, training and skills will be a key economic issue for UK. Industrial policy also needs to address the job market across the UK as a whole – not just the South East.

Technology to benefit everyone: Think about how advancements in artificial intelligence and digital technology can be used to facilitate improvements in productivity that benefit everyone. For example, how viable is a "four-day working week" – a point raised during the 150th TUC Congress this year? Could this be feasible in the future or will additional productivity directly benefit only companies and those at the top?

Corporate governance opportunities

The recent changes to both legislation and the UK Corporate Governance Code – particularly those around executive pay and the 'voice' of the workforce around the boardroom table - might prove a catalyst for changing the dynamic between workers and boards.

Pay ratios and the wider workforce: For accounting periods beginning on or after 1 January 2019, quoted companies with more than 250 UK employees will be required to publish the ratio of their CEO's total remuneration to the median (50th), 25th and 75th percentile full-time equivalent (FTE) remuneration of their UK employees. This, along with publishing supporting information, around rationale for decisions made will be of great interest to the investment community. Shareholders will expect strong rationale if the ratio has increased compared with previous years or appears out of kilter with other companies in the same industry. So, not only will companies need to pay close attention to ratios in relation to the performance of the business and rewards for the general workforce, they will also have to consider the general climate and communication around pay and transparency; which has an increasing focus on fairness with the introduction of gender pay and national minimum wage reporting.

Workers on boards: With a view to better board decision making, the new 2018 UK Corporate Governance Code strongly encourages boards to engage with their workforce through one or a combination of the following methods: a director appointed from the workforce; a formal workforce advisory panel; or a designated non-executive director.

Frances encouraged boards to think seriously about the benefits of elected worker directors – the default model across much of mainland Europe. *"No one has a bigger impact on success than those whose livelihood depends on it."* However, the signals so far indicate that few UK companies are considering appointing workforce directors at this stage.

Equally, the notion of an existing non-executive being assigned to reflect workforce experience doesn't appear to have gained traction either. The attached Board Leadership Centre publications Workforce directors, Designated non-executive directors and Workforce advisory panels explore each of the models proposed by the UK Corporate Governance Code. Also, an exploration of how boards might make worker representation a reality can be found on the TUC's website.

Other routes to employee engagement

There are other opportunities for businesses (and regulators) to consider schemes that enhance their employee and public engagement, whether that's through tax effective share structures or other forms of ownership. One observation was that perhaps it's surprising in the landscape of business and society actively striving for greater equality and fairness that we do not see more start-ups opting for a mutual or partnership approach to business ownership and creating a loyal culture founded on vested interest from the very start.

Contact us

Timothy Copnell
KPMG Board Leadership Centre
T: +44 (0)20 7694 8082
E: tim.copnell@kpmg.co.uk