



# Board oversight of workforce wellbeing

KPMG Audit Committee Institute



The intersection of COVID-19, an economic recession, and protests calling for social equality have cast an even brighter spotlight on how companies are treating their employees and adjusting their talent development strategies amid the shift to stakeholder capitalism. According to [KPMG's 2020 CEO Outlook](#), at the beginning of the year less than a quarter of those surveyed saw their organisation's overall objective in narrow 'managing for shareholder value' terms, with 54 percent taking a broader, purpose-driven approach focused on multiple stakeholders. More recently, purpose has helped CEOs with 77 percent reporting that 'purpose' has helped them understand what they need to do to meet the needs of stakeholders during the crisis, from employees and communities, to customers and investors. It is incumbent on boards to help ensure that management takes these issues into account as they navigate these difficult times.

In recent months, employee health, safety, and wellbeing has taken on a new and expanded meaning and has become the focus of a wide range of stakeholders. Providing personal protective equipment for frontline workers, creating safe and productive work-from-home options when possible, implementing flexible working hours, providing health and wellbeing portals and advice, and providing additional time off to care for dependents are becoming more widespread practices. And many companies have made public commitments to achieve progress on workplace diversity, equity, and inclusion, with employees, investors, and other stakeholders monitoring the fulfilment of those commitments. Widening economic inequality and growing acknowledgement that successful strategy execution hinges on the company's talent base – further highlighted by COVID-19 – has led some boards to expand their talent oversight responsibilities to include all workers, not just those in the C-suite.

Specifically, as boards have expanded the role of the nomination committee (or governance committee) to include oversight of both the plans in place for ensuring orderly succession to the board and senior management positions, and the development of a diverse pipeline for succession – broader human capital issues, including workforce wellbeing, employee diversity and talent development have come to the fore.

As they carry out their oversight of a broad array of human capital related issues in this new environment, boards can encourage management teams to:

- Prioritise and reassess the meaning of worker health, safety, and well-being.

- Re-evaluate diversity and inclusion initiatives at all levels.
- Take a fresh look at the company's talent development strategy.

## **Prioritise and reassess the meaning of workforce health, safety and wellbeing**

Many companies have long made workforce health and safety a priority. However, COVID-19 has brought renewed attention to this issue, both expanding the company's role in ensuring the wellbeing of its workforce and changing the way health and safety concerns must be addressed. To highlight this shift, in the early months of the pandemic, a group of institutional investors representing \$9.5 trillion in assets under management signed a [public letter](#) calling on companies to protect workers, including prioritising health and safety, providing aid leave and maintaining employment, stating:

"We recognise the long-term viability of the companies in which we invest is inextricably tied to the welfare of their stakeholders, including their employees, suppliers, customers, and the communities in which they operate. As such, we call upon these management teams and boards of directors to join us in facing this unprecedented threat."

Indeed, many boards have brought a new level of intensity to their oversight of employee health and safety matters. A KPMG BLC survey, '[Near and long-term challenges of COVID-19](#)', found that 90 percent of directors surveyed reported holding substantial board and committee discussions about employee health and safety as a result of COVID-19.

The same percentage also indicated that their management teams provide the board more frequent updates on employee and customer health and safety.

Each part of the world, and even the UK, are experiencing the impact of COVID-19 differently and are operating in different stages of government lockdown or reopening. The situation is further complicated by the continued uncertainty around how long the virus will continue to disrupt everyday life and when vaccines will become widely distributed. As management makes decisions about the company's return to work strategy, the board should make it clear that prioritising workforce health and safety remains paramount. Some questions boards may ask of management include:

- Is management's return to work plan agile enough to withstand the constantly changing conditions? What risks does this plan present to employee health and safety and to the company's reputation and long-term strategy, and how are these risks being mitigated?
- What metrics does the board receive on employee health and safety (e.g., whistle-blower complaints about working conditions or employee absence related to COVID-19, or the impact of caretaking responsibilities)? How frequently is management providing the board with these metrics (e.g., a weekly email from the CEO or a COVID-19 dashboard on the board portal)?
- What long-term changes does management plan on implementing after COVID-19 subsides (e.g., talent development strategy, digital strategy, flexible and remote working strategy)?
- Where does management feel pressure in balancing the short-term versus the long-term interests of the company? How does management have regard for stakeholder priorities and social issues in the light of the company's financial condition?

Workforce health, safety and wellbeing are critical to ensuring company operations can continue during disruption. If not handled correctly, the issue also poses risks to the company's reputation among both internal and external stakeholders. For example, JUST Capital, which tracks corporate responses to COVID-19 offers [five principles](#) to help guide corporate leaders' decision making, three of which focus exclusively on the treatment of the workforce.

- Support workers' health and financial security (e.g., by providing hazard pay to employees on the front lines).
- Adopt practices to minimise job losses (e.g., by shortening the working week to reduce operating costs).

- Put workers first, and work with government to do so (e.g., by using government assistance to pay workers where appropriate).

### **Re-evaluate diversity and inclusion initiatives at all levels**

In recent conversations, board members and others have acknowledged the painful reality that while – thanks to the [Hampton-Alexander](#) initiative – some progress has been made in terms of women on boards, corporate Britain has not made enough progress in other areas to take a more holistic approach to equality including women in executive positions, ethnic diversity and social mobility.

Indeed, despite perceptions in the UK that the issue of racial injustice is one predominantly emanating from across the Atlantic, [Spencer Stuart's 2020 Board Index](#) reports that UK companies trail their US counterparts when it comes to ethnic diversity in the boardroom.

Despite growing calls for greater BAME representation on boards, Spencer Stuart's review of the Top 150 UK companies suggests mixed progress on ethnic diversity in the UK. 8.3% (122) of all board directors are identified as BAME, maintaining a gradual upward trend since 2016 (5%). However, while the proportion of BAME non-executives has increased to 9.6% (104), it has halved among executive directors in the past four years (from 5.1% in 2016 to 2.6% in 2020).

Investors are also calling on boards to be transparent about the company's commitments to diversity and inclusion. For example, State Street has taken the bold decision of announcing that this year it will vote against the nominations and governance committees at FTSE100 companies that fail to disclose the racial and ethnic composition of their board.

And, in 2022 State Street is planning to up the ante. It will vote against the same boardroom chairs where they fail to appoint "at least" one director from an "underrepresented community to their boards".

A sustained commitment from leadership is critical. Driving diversity, equality and inclusion throughout a business is a matter of leadership and that has to come from the very top of the company. It has to be central to the company's culture and viewed as mission-critical and fundamental to long-term success. The board should take the lead by, for example, cultivating a diverse and inclusive boardroom culture.

More on this topic in our publication '[Tackling inequality in the boardroom](#)'.

### **Take a fresh look at the company's talent development strategy**

Attracting, developing and retaining the right talent throughout an organisation is crucial to the successful execution of the company's strategy.

Traditionally, the board's most important role has been to hire, set compensation for, and, if necessary, fire the CEO. However, the 2018 UK Corporate Governance Code now sets clear expectations on boards – via their nomination committees – to lead the process for appointments and to ensure plans are in place for the orderly succession to both board and senior management positions; and to oversee the development of a diverse pipeline for succession.

As boards and nomination committees evaluate broader talent management programmes, they should be familiar with the mission-critical roles throughout the organisation, including the positions below the C-suite that are key to the strategy and performance of the company. For example, this could be the technical lead on the manufacturing floor for the company's top product, the information technology manager who maintains the company's customer database or the relationship manager for the company's largest customer account. While it is not the board's role to get involved in the direct management of these employees, the board should probe management to ensure strong performers are filling these roles and robust succession plans are in place. Questions to ask management may include:

- Which roles are crucial to the company's strategy and would present significant risk if vacant or filled by unqualified employees?
- What skills are necessary to perform these roles? Do the individuals currently holding these roles possess the required skills?
- Are their succession plans to fill these positions should they become vacant unexpectedly? Are employees cross-trained on these mission-critical roles so they can immediately step in?
- In the light of COVID-19 and business model disruption, have there been changes in the company's strategy that make some positions more critical or others less so? Should any mission-critical roles be redesigned or automated?

As many companies are faced with the prospect of downsizing or restructuring during the current economic uncertainty, boards can ask management to think about the long-term implications of these changes. The CFO and the HR director should work together to make sure that cost-cutting measures do not lead to the loss of key talent who will be needed to take the company forward. Boards should help ensure programmes are in place to identify and retain those employees with leadership potential and provide them with opportunities for the learning and growth needed for future success.

As most CEOs are internal hires, the earlier the board has the opportunity to get to know future candidates, the better. Despite current bans on corporate travel and office closures, which may make this difficult, directors should proactively seek opportunities to get to know these employees via one-to-one virtual meetings, participating in town halls, etc. Other initiatives to develop internal talent and capability could include middle management development programmes, and partnering and mentoring schemes.

As boards become more engaged in the oversight of talent development below the C-suite, investors are looking for information on the board's involvement. The Annual Report should include information on the process used in relation to appointments, its approach to succession planning and how both support the development of a diverse pipeline; and the metrics used to hold management accountable for the talent development strategy. With both the operating environment and the necessary workforce skills changing more rapidly than ever, it is essential for boards to demonstrate the robustness of their oversight over the company's talent development strategy.

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Learn more at [www.kpmg.com/uk/blc](http://www.kpmg.com/uk/blc).

### Contact us

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



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