



The workforce and the board

This is the fifth of five pieces from an internal audit perspective on the 2018 UK Corporate Governance Code: **Non-executive recruitment** (1), **Viability statements** (2), **Audit committee effectiveness** (3), **Culture** (4) and the Workforce voice (5).

The board and the workforce operate at different ends of the corporate spectrum yet effective corporate governance expects them to have the same purpose, values and culture; a common strategic goal. A new requirement in the Code addresses this by promoting the workforce view/employee voice to the boardroom.

This paper focuses on the requirement for board engagement with the workforce view of the organisation. It encourages audit leaders to think about what new assurances or consulting activity may be needed.

RECAP. On 16 July 2018 the Financial Reporting Council (FRC) published its long awaited update to the UK Corporate Governance Code together with revised Guidance on Board Effectiveness.

The revisions support the government's vision of restoring trust in the corporate organisations and the broader social reform agenda which aims to improve the standard of living and quality of life for ordinary working people.

Defining the workforce

The workforce includes all employees whether permanent, part-time or on zero-hours contracts. Boards should also consider including individuals engaged under contracts of service, agency workers, and remote workers, regardless of their geographical location. A clear rationale should be available as to who has been included and why.

There has long been a requirement for boards to have dialogue with stakeholders in relation to its objectives. The new Code takes this much further. It differentiates shareholders from stakeholders to emphasise the broader population and requires boards to engage with them and encourage their participation in the organisation.

It is often said that people are an organisation's greatest asset. Boards are now required to gain a deeper understanding of their workforce views; their needs, interests and perhaps of paramount importance any concerns.

Research by **Investors in People** suggests that organisations engaging with their employees are more successful, more agile and leads to authentic corporate values.

Across Europe **employee representation** at board level is commonplace, even mandatory in some countries as shown in the diagram.

New Provision

The new requirement is part of Section 1, Provision 5

For engagement with the workforce, one or a combination of the following methods should be used:

- a director appointed from the workforce;
- a formal workforce advisory panel;
- a designated non-executive director.

If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

- How has the board responded to this requirement? Positively?
- Who is accountable for putting this in place?
- What was/will be the decision process for determining the approach?
- How will the board evidence that stakeholders including employees are being heard?
- What measures will ensure decisions remain agile and at pace?
- Should the audit committee be requesting assurance on readiness and/or implementation?

Engagement options

The Code details three methods for raising the employee voice. Boards are empowered to choose one or multiple options or alternative approaches as appropriate for the organisation.

Engagement option	Assurance considerations
Director appointed from the workforce	Is the selection process inclusive? How does one person represent diverse viewpoints? What training is provided to the representative? How will the impact on their performance be managed? How is confidentiality maintained? Is vetting of candidates necessary pre-selection? What is an appropriate tenure for the role? Assurance of accuracy and completeness of feedback to employees
A formal workforce advisory panel	As above plus How have workforce 'groupings' been derived? Are the groupings sufficiently diverse and appropriate? Who will chair the panel? Is reporting to the board open and transparent?

A designated non-executive director	<p>Does this option present 'trust' issues for the workforce? What experience does this NED have in this field? Are the time commitments of this NED sufficient? How will trust be built between the workforce and NED? How does one person represent diverse viewpoints? How to evidence that the board understands this role is about functional responsibility not accountability, the entire board remains accountable?</p>
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In addition to the formality of the Code requirement, organisations should look to set up other complementary ways for the board to engage with employees.

Audit leaders should appraise for themselves any existing forums that could readily be adapted and other ideas to discuss with the chair of the audit committee.

Examples of workforce engagement activities

- Hosting talent breakfast/lunches, town halls and open-door days
- Listening groups for frontline workers and supervisors
- Focus or consultative groups
- Meeting groups of elected workforce representatives
- Meeting future leaders without senior management present
- Social media updates
- Visiting regional and overseas sites
- Inviting colleagues from different business functions to board meetings
- Employee AGMs
- Involvement in training and development activities
- Surveys
- Digital sharing platforms
- Establishing mentoring between non-executive directors and middle managers

Extract from

FRC Guidance on Board Effectiveness 2018

Implementation considerations

Audit leaders may be asked for advice on setting up the workforce engagement process. The following are suggestions and not a comprehensive list.

- Employees will need to have an appreciation of business skills in order to contribute effectively, for example company finance and decision-making. Has the board considered the lead-time for training workforce representatives? It will be necessary to report that this has been in place for reporting periods starting after January 2019.
- Does the adopted approach (potentially a variety of engagement methods) ensure that a wide selection of views can be obtained as different sections of the workforce may have different interests and needs?
- What impact could the new engagement methods have on existing union channels of communication? The Code makes it clear that this is not intended to replace other forums or requirements.
- Non-executive directors are encouraged to increase their visibility with the workforce. Audit leaders can play an instrumental role in this, building on the existing audit committee relationships. How can this be done efficiently and with maximum effect for all parties?

Related Principles and Provisions

The profile of these existing requirements is likely to increase due to their linkage to the workforce view of the organisation.

Principle E that 'the workforce should be able to raise any matters of concern' and in Provision 6 that 'there should be a means for the workforce to raise concerns in confidence and – if they wish – anonymously. The board should routinely review this and the reports arising from its operation. It should ensure that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action.'

- What is the policy and mechanism for employees raising concerns (often known as whistleblowing)?
- What role does internal audit have in the process?
- How often is assurance provided on its robustness and completeness of reporting?

Provision 5. The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making.

- How will future statements be evidenced, what **assurance** does internal audit provide in relation to the accuracy and validity of the non-financial element of the annual report?

Closing Thoughts

Mandating the voice of the workforce at board level is a significant step in redefining the future of corporate governance. As audit leaders your role, in partnership with your governance leaders, is to make a difference. What are you doing today to support this change?

"If you make listening and observation your occupation, you will gain much more than you can by talk."

Robert Baden-Powell

Further Reading

2018 UK Governance Code
2018 Guidance on Board Effectiveness
Acas information on employee voice