



Worker voice

in corporate

governance:

how to bring perspectives

from the workforce

into the boardroom

Executive summary

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Introduction

In the UK, the power to influence the governance of firms resides overwhelmingly with shareholders rather than workers. This is despite the fact that firms are more dependent on workers than they are on shareholders in order to operate and exist.

The 2019 'European Participation Index' maintained by the European Trade Union Institute ranked the UK 26th out of 28 European countries (EU member states plus the UK) for 'democracy at work' ahead of only Latvia and Estonia.¹

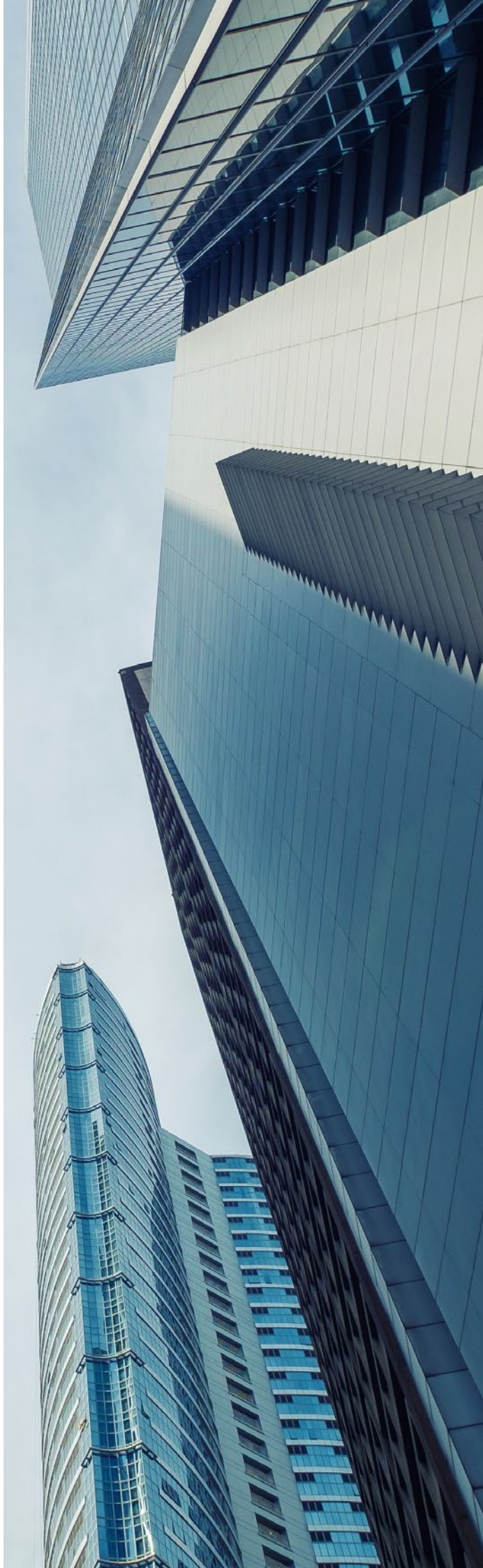
The High Pay Centre has maintained that stronger worker voice in governance structures and processes can:

- create pressure on employers in low-paying sectors to go further to boost the pay, conditions and wellbeing of their workforce.
- bring different life experiences to the boardroom to challenge limited perspectives.
- be an intrinsically worthy objective in itself, democratising workplaces and giving people, more agency over a significant part of their lives.

This report examines public attitudes to worker voice, and to business practice more generally, via an opinion poll on the topic. It then draws on interviews with business leaders, investors and trade unionists to explore in more detail existing provision of worker voice in corporate governance at UK businesses.

The research highlights examples of good practice for businesses detailing how to strengthen worker voice in corporate governance, as well as identifying areas where policy change is needed.

¹ The index uses measures of both formal rights and the extent of participation on three levels: in the board, at the establishment level and through collective bargaining. Available via https://europeanparticipationindex.eu/#EPI_Countries



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Public opinion on worker voice

While businesses should not be responsive solely to public opinion, public sentiment towards business is a critical determinant of the environment in which business operates. If businesses are perceived to act in a manner that is contrary to the public interest, this increases the risk of a consumer or regulatory backlash.

Our polling suggests substantial discrepancies between what the public think is important for businesses and their perception of businesses' priorities.

Table 1: Opinion polling on business objectives

	Businesses should care about most (%)	Businesses do care about most (%)
Better pay & working conditions for their workers	58	18
Paying a fair amount of tax	48	17
Delivering value for money for customers	40	23
Protecting the environment	40	15
Helping to improve society	26	14
Improving diversity of their workforce	18	15
Innovating new products	14	35
Generating higher profits for shareholders	10	54

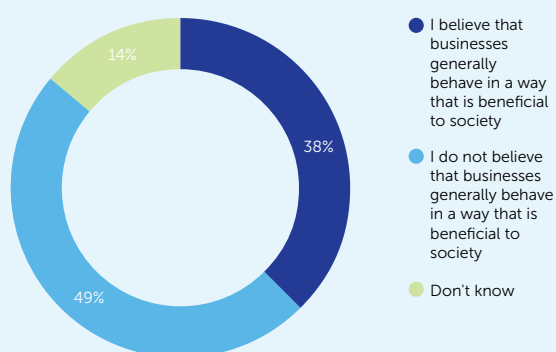


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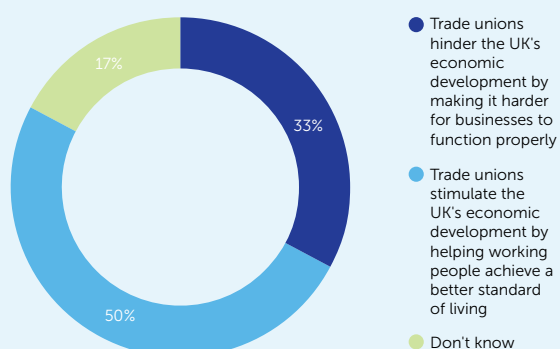
Respondents also felt that businesses often act in a way that is contrary to the interests of wider society.

Figure 1: Which of the following statements is closest to your view?



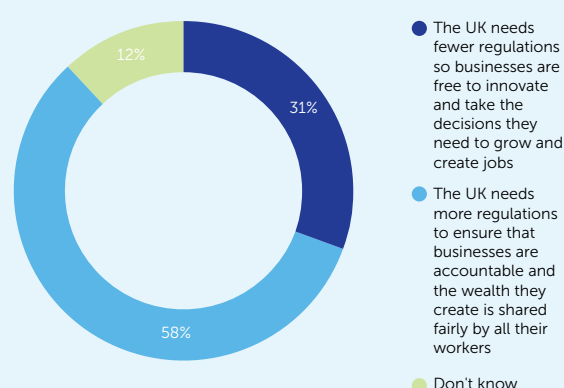
Views of trade unions were more positive.

Figure 2: Thinking of trade unions, which of the following statements is closest to your view?



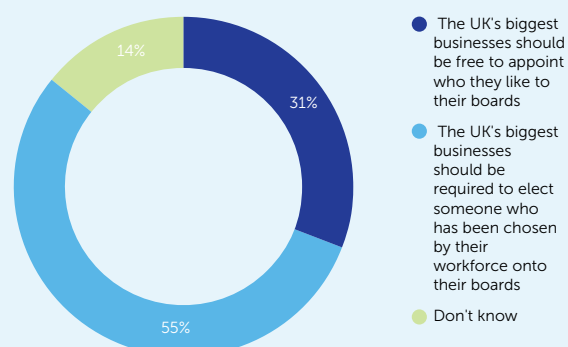
Most respondents also felt that the problem with business regulation was that there was too little rather than too much of it.

Figure 3. Thinking of business regulation, which of the following statements is closest to your view?



A clear majority thought that companies should be required to include an elected workers' representative on their board (55%). This was 54% for Conservative voters.

Figure 4. How important, if at all, do you think it is that workers have a greater say in the running of the companies that they work in?



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Interview findings

Throughout the course of the research interviews, four mechanisms with the potential to enable worker/boardroom dialogue leading to meaningful worker voice in corporate governance were repeatedly identified:

- Employee forums
- Worker directors
- Trade unions
- Worker ownership and investor stewardship

Key insights into practices that enable these mechanisms to operate more effectively were as follows:

Employee forums

- Indirect employees should be involved in employee forums as well as direct employees.
- In advance of holding elections, leadership should make it clear to the workforce what the role of workforce rep involves, with specific requirements in terms of representing the concerns of their electorate and reporting back on their work.
- Independence from management is essential for an effective forum: reps should be elected by the workforce.
- If the company has an agreement with a trade union or unions, union reps should attend the employee forum meetings.
- Training should be provided to reps on how to represent the views of all their constituents, and to board members/senior leaders on how to engage with the employee forum.
- Reps should be given adequate time out of their normal roles to engage with constituents.
- The board, and specified key individuals, should have a responsibility to meet regularly with the forum, and to report back on how issues raised by the forum have been considered and acted on: this should be in the Terms of Reference for the forum.

- Similarly, the board should be required to discuss major business decisions that will affect the workforce with the forum, and take its perspective into account during the decision-making process.
- The agenda for meetings between the employee forum and the board should include items from both parties.
- The forum should be able to publish, with full editorial control, an annual summary of its engagement with the board detailing how effective and meaningful the engagement has been.

Worker directors

- The issue of worker directors should be approached from the perspective of diversity and democratisation – bringing different professional and life experiences to the decision-making process in order to improve decision-making. Worker directors provide a workforce perspective and a knowledge of operational practices but they should not be expected to represent all workers.
- Given that worker directors are not there to represent the entire workforce, they should be supplementary to collective worker voice mechanisms that give voice to the whole workforce, such as board consultations with trade union and employee forums on major business practice and strategy issues, and not a substitute for these collective mechanisms.
- Worker directors should ideally be elected by the workforce, though appointment by management is preferable to having no worker directors.
- It should be made clear to the workforce what the role involves ahead of the election process so that individuals putting themselves forward understand the duties of a director and are willing to undertake them.
- Companies should provide training and mentoring for worker directors on how to carry out the role and comply with their directors' duties. This should include managing conflicts of interest and confidentiality.
- Boards should have at least 2 worker directors, and ideally the worker directors should make up one third of the board.

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Trade Unions

- Relevant unions should be allowed periodic access to workplaces, regardless of whether there is already a union presence or not, to tell staff about the benefits of trade union membership, and ensure that staff are aware of their rights and know who the relevant trade unions are for their sector.
- Companies should provide new employees with information about their recognised trade union, so that the union can be more representative and reflect a wider proportion of the workforce in discussions with the board.
- Companies should invest in relationships with unions by providing reps with facilities time.
- Where a union has a presence within a company, the company board should engage with the unions on strategic matters. The board should have meetings with unions where pay negotiations are off the table, where the purpose of the meeting is to discuss wider strategic issues and to listen to what union officials have observed.
- The board should involve unions in decision-making processes in all areas that affect the workforce – unions' role as a mechanism for worker voice in corporate governance should be formalised in union recognition agreements.
- At companies where there is a partnership with unions, any non-independent voice mechanisms (including in-house employee forums, company surveys and designated stakeholder NEDs) should seek the involvement of unions and should act as a supplement to them.



Worker ownership and investment stewardship

- Companies should enable their workforce to secure a meaningful shareholding, as a means of giving them a formalised voice in corporate governance as shareholders.
- The extent of worker shareholdings should be disclosed by all companies in annual reports, enabling a more accurate and up-to-date understanding of the extent of worker shareholdings and the outcomes it delivers in areas such as financial performance, corporate governance or pay and working conditions.
- Companies should provide more detailed reporting on their employment models and working practices so that investors fully understand the composition, skills and capabilities, engagement, well-being and voice of the workforce in whom they are investing.
- As a corollary, investors should also encourage companies to provide informative reporting on their workforce, including mechanisms for voice in corporate governance, encompassing consistent data with contextual narrative. They should also support disclosures – perhaps in annual reports or sustainability reports – by employee forums detailing the extent and impact of their engagement with board-level decision-making.
- Investors should adopt a more supportive approach to worker-directors, acknowledging that they bring perspectives and insights to the company that are impossible for anyone qualifying as 'independent' (i.e. from outside the company) to contribute.
- Pension funds should proactively seek the views of their members on the social and environmental impact of their investments, including on employment issues including worker voice and participation in decision-making, and incorporate this into their stewardship practices and/or their mandates for asset managers.

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Policy recommendations

Policymakers and regulators should:

- Equalise provisions on workforce engagement in the Wates Principles for private companies and the Corporate Governance Code.
- Add guidance to the Code and the Wates Principles on the role of worker directors.
- Add more detailed expectations to the Code and Wates principles on employee forums, covering the forum's access to and accountability from the board.
- Acknowledge trade unions as a means of delivering worker voice in corporate governance in the guidance to the Code and the Wates Principles.
- Change the term 'employees' to the term 'workforce' in the Companies Act, to encourage involvement of indirectly employed workers in worker voice mechanisms.
- Require companies to inform workers of their rights and access to 'voice'.
- Mandate the appointment of worker directors by workforce election.
- Abolish the requirement for worker directors at listed companies to be subject to election/re-election by shareholders at AGM.
- Guarantee trade union workplace access and recognition, as a means of achieving worker voice in corporate governance.
- Take worker voice into account when considering companies' bids for public procurement contracts, as a means of delivering social value through procurement.

Further information

For more detailed analysis and recommendations, read the full report at www.highpaycentre.org



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We are an independent charitable Trust supporting strategic work which tackles financial problems and improves living standards. Our focus is on improving the lives of people on low-to-middle incomes in the UK.

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