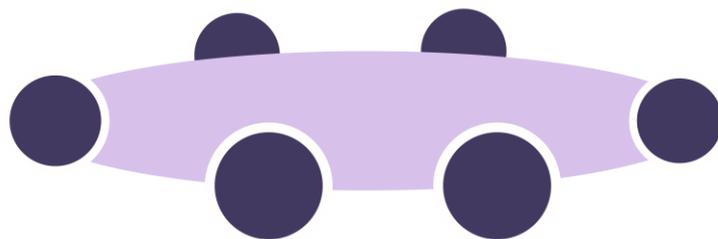


Bringing employee voice into the boardroom

A practical and flexible way forward

Press release



tomorrow's
company

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Increase employee voice on boards but do it practically and flexibly Tomorrow's Company sets out the insider and the outsider option in advice to PM

7th November 2016, London:

There is a need for stronger employee voice on boards to ensure long-term business success, says Tomorrow's Company. In its new report, *'Bringing employee voice back into the boardroom - a practical and flexible way forward'*, the think tank presents the government with two options of how employee voice can be increased in company governance structures. Either employees can work as directors on the board, or as an alternative, companies would set up employee advisory panels with strong channels of communication to the board.

The government has made a prominent pledge to reform corporate governance in the UK. As part of this, Theresa May has put employee representation on boards at the forefront of these discussions.

"The reaction from business is usually that this would never work here. We need to be more open minded. Our research and discussions with business leaders in other European countries suggests there are many benefits that should not be ignored. We put forward a practical and flexible solution that would capture these benefits in a manner that would work in the UK", comments Laurie-Fitzjohn-Sykes, director of research at Tomorrow's Company.

The think tank argues that the most sensible way forward would be to require companies to increase employee voice but to allow for flexibility on the adaptation. This, according to Tomorrow's Company, would be in tune with the UK's long history of driving innovation in corporate governance through flexibility.

Commenting on the release:

Mark Goyder, chief executive and founder, Tomorrow's Company: said
"Tomorrow's Company has long argued for a stronger employee voice on boards. But it is important that any change made by government strengthens the UK's unitary board on which all directors work together to promote the long term success of the company. Flexibility and practicality are vital: our report shows the PM how she could use the reforms to stimulate real culture change."

Notes to Editors:

Tomorrow's Company is an independent non-profit think tank that exists to inspire and enable companies to be a force for good. It believes business can create more value for shareholders and society by adopting an approach that focuses on purpose, values, relationships and the long term. It succeeds in its goal by convening business leaders, investors, policymakers and NGOs to develop practical solutions. Tomorrow's Company was founded in 1995 following the RSA inquiry into the role of business in a changing world.

Tomorrow's Company has had impact across a number of areas. Its work on investor stewardship and capital markets stimulated the emergence of the UN Principles of Responsible Investment and the UK's Stewardship Code. It has influenced the direction of corporate governance, including defining the inclusive duties of directors for the UK's Companies Act 2006 and influencing the King III report in South Africa.

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The report is available at:
<http://tomorrowcompany.com/publication/employees-on-boards/>

Background:

Tomorrow's Company has long advocated for stronger employee voice (see *'Rethinking Voice'*, 2012). The importance of allowing staff to express their opinions and boards listening and involving them in decision-making is now widely accepted by business as crucial for long-term success.

In its report, *'Bringing employee voice back into the boardroom'*, Tomorrow's Company sets out the benefits and challenges of having an active employee voice at board level. The arguments have been informed by members of its Good Governance Forum (a forum that explores practical solutions with business leaders to improve the quality of corporate governance).

Which companies should employee representation on boards apply to?

The report proposes that employee representation should apply to all companies with more than 500 employees in the UK, this is 3,100 companies who employ 8.6m people (35% of private sector employment). These companies would be required to increase employee voice within governance structures, with two options provided for how this could be achieved.

Companies with more than 50% of employees in the UK would be required to introduce employee voice at the group level, while those below 50% would have the option to introduce employee voice at the UK subsidiary level.

Option 1 – Employee directors on a unitary board – Introduce employee representatives onto the board, where importantly they have the same legal duties and responsibilities as other directors. This duty is to the company not to employees or shareholders. There are three ways the directors can be elected.

- Directly elected by employees in the same way employer's pension scheme members elect their representatives.
- Appointed by an employee advisory panel that is in turn elected by employees.
- Appointed by an employee ownership trust that has a significant shareholding in the company, held on employees' behalf.

Option 2 – Employee advisory panel – Introduce (or, where it already exists, formalise) an elected employee advisory panel that meets regularly and then has formal channels of communication to the board. In order to ensure that this option has teeth, the panel would be empowered by giving it the right to report publicly its views on key issues facing the company, including executive pay. This could be published in the annual report and a summary of its conclusions would be presented by the panel chairman at the AGM.

For subsidiaries of multinationals the advisory panel would communicate regularly with the UK management board of the company with an annual report or presentation provided to the group level board.

Evidence and example:

The report looks at the evidence across Europe where employee representation has had positive effects. For example, a study across the EU found that the average number of working days lost to strike in countries with codetermination was 9.7 days compared to 104.8 days lost in those with limited or no rights per 1000 workers in 2000-2002ⁱ. The Journal of Financial Economics found that in Germany employee representation reduces agency costs and increases the firm valueⁱⁱ.

Currently, First Group is the only UK example of a listed company with a non-executive employee director. It has had one since its founding in 1989. Their annual report describes it as "extremely beneficial for its employees to be represented on the Board in this way as it enables employee-related issues to be raised directly at the Board and provides a two-way communication between the Board and employees."ⁱⁱⁱ

ⁱ Vitols, S (2005). Prospect for trade union in the evolving European system of corporate governance. European Trade Union Institute for Research, Education, and Health and Safety.

ⁱⁱ Fauver, L. and Fuerst, M. (2006). Does good corporate governance include employee representation? Evidence from German corporate boards. Journal of Financial Economics, 82(3), pp.673-710.

ⁱⁱⁱ First Group PLC, 2016. Annual Report and Accounts.