Local Authority Pension Fund Forum

EMBARGO: 00:01am 1 May

## Companies choose not to appoint employees to boards

*LAPFF survey shows how far companies have fallen short of Theresa May's original pledge to give workers a say on boards and demonstrates lack of innovation.*

The overwhelming majority of public companies will give a non-executive director responsibility for representing workers to comply with the new UK Corporate Governance Code instead of appointing a director from the workforce, a LAPFF survey shows.

In response to Theresa May's pledge to give employees a voice on boards, the revised Code gives companies three options: a director appointed from the workforce, a formal workforce advisory panel, and a designated non-executive director. If companies choose not to comply they must explain why.

Almost three quarters (73%) of companies surveyed by LAPFF that have decided how to comply said they would appoint a designated non-executive director. Just 5% (two companies) said they would appoint a director from the workforce while 27% opted for a workforce advisory panel. Two-thirds (66%) of all respondents said they had decided how to comply. Almost one in five (18%) planned to explain rather than comply with the remainder undecided on how (11%) or whether to comply.

The most common reason given for rejecting a worker director or a workforce advisory panel was the size of the workforce. Some companies said their workforces were too small while larger companies questioned how one person could represent a global workforce. Other objections included conflicts of interest, creating a distraction and delayed decision making.

The survey shows how far companies have fallen short of Theresa May's original proposals for representing workers. Launching her campaign for the Conservative party leadership she said: "In practice [non-executive directors] are drawn from the same, narrow social and professional circles as the executive team and – as we have seen time and time again – the scrutiny they provide is just not good enough. So if I'm prime minister, we're going to change that system – and we're going to have not just consumers represented on company boards, but employees as well."

LAPFF's survey shows a lack of innovation in workforce engagement. This is particularly disappointing given that no respondent to LAPFF's survey considered the changes would be negative for the market or their company.

There are already examples of employee directors at UK public companies. FirstGroup has had an employee on its board for 30 years. More recently Mears Group and Sports Direct have appointed employees to their boards and Capita will do so soon. In most EU countries employees are represented on their company's board of directors or supervisory board. Arrangements are diverse, spanning board structures, size of company and how employees are appointed.

**Cllr Paul Doughty, LAPFF's acting chair, said:** "Theresa May's plans for worker representation on boards were radical but companies are overwhelmingly taking the safe option of giving responsibility to a non-executive director. Companies have fallen well short of the prime minister's original pledge to give workers direct representation and shake up corporate governance. Companies' response shows a disappointing lack of innovation and imagination. There are already large UK public companies with workers on their boards and the practice is common in Europe. It is surprising that so few companies couldn't find a way to represent workers more directly than giving responsibility to a non-executive director. As boards get used to the idea of worker engagement we hope to see more innovation in future."

LAPFF supports the new requirements and has made the case that stakeholder representatives can provide a new perspective and an important check and balance to board discussions and decision-making. As long-term investors, involving stakeholders in decisions can add a longer-term perspective, not least in ensuring a closer link to the social context in which the business operates. The Forum has not been prescriptive about the form representation might take. It has called for approaches that go beyond workforce engagement to participation in decision making.

LAPFF wrote to FTSE All-Share companies between 15 February and 13 March 2019. The anonymised survey received 57 responses of which 39% were from FTSE 100 companies, 40% were from the FTSE 250 and 21% were small-cap companies. The responses represented 20% of the FTSE 100 and about 10% of the FTSE 350.

**ENDS>** **1 May 2019**

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**About the Local Authority Pension Fund Forum**

The Local Authority Pension Fund Forum (LAPFF), founded in 1991, is a voluntary association of 79 public sector pension funds and five pools based in the UK with combined assets of approximately £230 billion. It exists to 'promote the long-term investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest.' www.lapfforum.org. PIRC is the Research and Engagement partner to the Forum.