ENGAGING THE WORKFORCE AND STAKEHOLDERS IN 2019

SIFA STRATEGY

Four questions for the Board

Two recent corporate events highlight the increasing need for the Board to pro-actively manage workforce/stakeholder engagement and the culture of their business.

Capita plc announced their intention to appoint two employee directors as non-executives to the Board. The same week, Ted Baker plc faced accusations of a damaging corporate culture. Stakeholder engagement and culture have now become regular high-profile corporate events. As the new UK Corporate Governance Code and the Wates Principles for private companies come into effect on 1 January 2019, the exposure and pressure on every Board to explain their approach to these intangible assets will increase.

The new Code is going to require Board practice to change. The traditional response to describe the process of stakeholder engagement and culture will no longer be adequate. The Board must now explain issues of importance to the business and report on how this influences their decision making.

We recommend every Board ask itself four questions. The answers will determine their preparedness for the new Corporate Governance Code requirements and future best practice.

On 6th December 2018, Capita plc very publicly announced the intention to appoint two employee directors as non-executives to the Board. During the same week, Ted Baker plc was openly attacked by its employees and the media on accusations of a damaging corporate culture to the extent that they have been forced to form an independent committee headed by a non-executive director, with support of a leading law firm, to examine the issue. Two very different stories, for different reasons, but both high profile because it is now understood by managers, investors, regulators and the media that stakeholder engagement and culture can have a significant impact on business performance and valuation.

The proactive route taken by Capita plc should be applauded for a number of reasons. They have identified the workforce representation approach best suited to their business; they have gone beyond the Code requirement by appointing two representatives; they are not limiting any access or rights of these representatives; and they have made the appointment as a key part of their corporate strategy and narrative. This clear positioning and explanation will mark the way for other Boards to follow in how to address the Code's principles and provisions. However, they have not explained how these representatives will engage with and understand the issues of the company's 70,000 plus employees.

The Capita plc announcement will put pressure on the Board of every primary UK listed company to clarify which route they intend to adopt in response to Provision 5 of the Code – appointing a director from the workforce; establishing a formal workforce advisory panel; or designating a non-executive board member. Each Board will now need to do this sooner rather than later as the level of questioning from investors and commentators is only likely to accelerate.

However, Capita plc and Ted Baker plc have something in common and will face the same challenge in the future. To date, both have explained the process they are undertaking. Under the new Code, they and every other Board will need to be able to demonstrate the results of the process they have adopted and how the Board will continue to monitor and measure it. They must also outline the resulting decision-making and how this is changing the business.

The Code is very clear on its objectives - for the Board to understand the views of the company's workforce and other key stakeholders and to describe in the annual report how their interests have been considered in board discussions and decision-making. This is a significant move away from current best-practice where the Board has reported on the process the company has followed to engage with the workforce and other stakeholders and made reference to the importance of culture to the business.

The new requirements from the Code are going to have to drive a change in Board practice and the information necessary for effective management.

We recommend that both executive and non-executive directors ask the following four questions of their Board reports:

- **Does the data on workforce engagement enable on-going insight and ensure the whole workforce is being represented fairly?**
- **Are the interests of the workforce and stakeholders being regularly presented to the Board and linked to key performance indicators?**
- **Does insight assess the corporate culture throughout the business and understand the impact of corporate behaviour on stakeholders?**
- **Is the data robust enough to analyse and measure the results of decisions made by the Board?**

If the answer to any of these questions is no or maybe, then the Board needs to reconsider its approach for the future. Investors have made clear the increasing influence of these factors in their decision-making process and the Code requires that they are built in the corporate narrative and reporting. Capita plc and Ted Baker plc, as just two recent examples, also show that this is becoming an area of public and media interest.

The Board of the future will need data and insight that is regular, measurable, concise and linked to different performance criteria of the business and risk. For many companies this will mean moving away from data that is generated in operational silos, static and past its sell by date. Future best practice will embrace new data approaches that enable regular insight to be tailored to each Board's requirements, unified across both the business and across stakeholders and generated within an economic and flexible model.

For further information

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About SIFA Strategy

We work with senior management teams to enable them to measure and embed stakeholder measurement and engagement programmes to assist decision-making and support corporate governance within a Board framework.

Underpinned by our bespoke research and insight programmes, we analyse the current level of support for an organisation across employees and multiple stakeholders and the impact of culture. By identifying potential areas of reputation risk and strength, we enable organisations to protect and enhance their stakeholder relationships and treat corporate behaviour, culture and reputation as strategic and measurable tangible assets.

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