REPORT

A seat at the table

Unexpected trailblazers are championing the inclusion of staff representatives on boards.

Bernadette Young FCG

Employee representation on boards is hardly a new idea. It is, of course, a normal part of corporate life in much of Europe, with Germany, Austria, Denmark and Finland being just a few examples of jurisdictions where such requirements apply. Even in the UK, it has been mooted on various occasions over several decades and certainly Teresa May's 2016 pledge, when she became Prime Minister, to introduce employee representation on boards was not a new or innovative proposal. It is 45 years since the Committee of Enquiry into Industrial Democracy published its report – known as the Bullock Report – which made recommendations for the representation of workers on UK company boards and in 2013 the Trades Union Congress published a report, Workers on Board: The Case for Workers' Voice in Corporate Governance.

Teresa May's promises were eventually adopted, in diluted form, through new provisions in the 2018 UK Corporate Governance Code. The Code offered a number of alternative mechanisms for bringing the voice of the employee into the boardroom. Perhaps predictably, the majority of companies chose what they probably deemed to be the least risky and disruptive option on offer – that is, to designate a non-executive director with responsibility for engaging with colleagues across the organisation.

A 2021 report published by the Financial Reporting Council, Workforce Engagement and the UK Corporate Governance Code: A Review of Company Reporting and Practice, found that the Code's other two suggestions – the establishment of a formal employee panel or appointment of a director from among the workforce – had proved to be considerably less popular. The latter, in particular, had been embraced by only a tiny number of FTSE firms.

This raises the question as to why UK directors are so resistant to the concept of inviting one or more colleagues to join the board. There are, after all, currently huge employee recruitment, retention and pay inflation challenges for all businesses. Better colleague engagement and board-level representation may be part of the answer to developing an employer brand that is more attractive to existing and prospective staff and can mitigate the huge risks and costs that high staff turnover and escalating pay expectations can create.

The arguments against employee director proposals are, to some extent, reminiscent of historical excuses not to address gender inequality at board level. They often centre around assumptions that it will be challenging to find individuals with the understanding and experience needed to provide valued input to high-level governance decisions and formation of strategy.

One might expect such arguments to be most vocally supported in the USA, where the shareholder primacy model is perhaps more in evidence than anywhere else in the world. So, it is somewhat surprising that Senator Marco Rubio and Congressman Jim Banks, both Republicans, have introduced a bill to make it mandatory for certain corporations to grant board membership to a worker representative, albeit on a non-voting basis.

And in the UK, pub operator J D Wetherspoon has also recently announced that four new employee directors – two with full PLC appointments – have been elected. I suspect Wetherspoons would not have been top of many people's lists of companies most likely to introduce such a measure. Its outspoken Chair, Tim Martin, is, after all, well known for his less than flattering views on the efficacy of corporate governance guidance and he and his company's approach to governance issues have drawn criticism from investor bodies in the past.

Certainly, no one should join a board underestimating the commitment needed to develop the knowledge and skills required to discharge their statutory responsibilities and to contribute effectively as a director. And – also reminiscent of historical arguments against appointing women to boards – employee representatives cannot be there in a token capacity. But, with the right training and support, there is no reason to believe that a director appointed from the workforce could not become fully involved in, and bring a different and useful perspective to, boardroom proceedings.

It seems that Wetherspoons, along with a handful of other large businesses, see the benefits of bringing colleagues with current direct experience of running their operations into the boardroom. It is unlikely to be a solution that suits all organisations but, as experience and practice on employee representation continue to build and evolve, now may be a good time for the board to revisit the mechanisms it adopted in response to the 2018 UK Corporate Governance Code and consider changes to make their approach more effective.

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