

Hidden treasure

A look at the critical importance of the employee voice in the boardroom.

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As an external board evaluator, I am often asked about the characteristics that set exceptional boards and executive teams apart. Of course, these include expected attributes such as being highly strategic, sharp, diverse and focused on high-quality, robust challenge, debate and oversight.

Such a board should comprise committed **NEDs** who add significant value to the executive team and organisation.

The three other characteristics that set the best boards apart are a deep respect and appreciation of employees, customer-centricity and an absolute commitment to doing the 'right thing'. Many people are taken aback by the mention of employees and remark that employees are the responsibility of the executive team rather than the NEDs. My reply to this would always be, 'Absolutely, the **CEO** and executive team have the day-to-day responsibility for their employees, but the board has a critical responsibility to oversee how the executive team is performing in this area and to set the bar high on how employees are treated and valued.' I would also highlight that exceptional customer satisfaction levels are delivered by highly engaged employees who feel inspired and proud to deliver outstanding service.

We all see examples of employees being treated poorly, whether that's in terms of pay and conditions, excessive workload or pressure, toxic cultures or un-necessary redundancies justified on the altar of financial expediency.

In the majority of cases involving major decisions relating to staff, the board will have either actively signed off on decisions or – tacitly or through neglect – they may have allowed executive teams to treat employees poorly. A particularly shocking example of this was seen in P&O Ferries' sacking of 786 seafarers and their replacement with low-paid agency crew in March 2022. It would have been very interesting to see whether, in the final board meeting before this action was taken, the board chair or any of NEDs stood up for the employees, many of whom had dutifully served the company for decades.

The struggle with employee engagement

Traditionally, the board-of-directors model has never had a place for employees. This is a consequence not only of shareholder primacy but also – and more importantly – the legacy of the 'Ivory Tower paradigm'. This is where the board directors, all affluent pillars of society, saw employees as 'resources in the machine'. The idea that the board should ascribe an important aspect of their role to understanding, valuing, respecting and partnering with employees would have been an anathema to the vast majority of boards until the last 20 years or so.

If we are honest, class distinctions also played a major role. Over the last 20 years, **CSR** and changes in corporate governance codes started a slow movement in terms of the board's focus on employees. In recent years, **ESG** has shone a bright light on this area and raised the bar on how boards should engage with and value employees.



There has always been a small but special cohort of companies whose boards embraced servant-leadership and partnered progressively with their employees. One of the unique strengths of the best family businesses is a genuine respect for and partnership with their employees. This can result in deep loyalty and low employee turnover and may become a core foundation of the company's long-term success across multiple generations.

Boards and NEDs are being overwhelmed with ESG considerations at the moment, however, so many still have blind spots when it comes to employees. I have also seen many cases of boards turning a blind eye to serious employee turnover problems caused by a toxic culture resulting from poor HR leadership in the executive team. These issues are justified on the basis that financial performance is all that matters.

A wake-up call for boards

The so called 'Great Resignation' and high levels of staff turnover have, to some extent, acted as a wake-up call for boards. In many cases, I have seen boards have an epiphany when they recognise the incredible sacrifices made by their employees in the COVID-19 pandemic and the impact of the dramatic increase in employee turnover on organisations across the world. There are myriad complex factors which are driving the current high employee turnover rates; one unpalatable truth that many boards and executive teams are finding it difficult to face up to is that many employees are leaving because of a poor culture

where they are not respected or valued. I have witnessed executive teams giving elaborate explanations of why droves of employees are leaving their organisation in an effort to mask serious, endemic culture problems where employees are treated as commodities. In so many cases, the Chief People Officer either never gets to present to the board or – when they do – they are hamstrung in terms of being brutally honest about the state of employee morale and the real reasons for high turnover. In contrast, I have seen a number of progressive boards where the NEDs set the bar very high for the executive team's performance in relation to HR issues and they have a realistic understanding of the organisation's culture and performance.

In the last six months, purpose and culture have been governance buzzwords. When evaluating a board, I not only review the last 12 months of board and governance materials, but also closely study the annual report, the organisation's website, employee engagement and culture surveys and detailed performance metrics on employee turnover. In a number of cases, I observe a yawning chasm between what the board and executive team say publicly about their employees and the reality of how they engage with and value them. In my view, the majority of material on culture, purpose and values is over-complicated and can be distilled into far simpler terms: how does this executive team and board treat, respect and value its employees and customers and does this board and executive team walk the talk when it comes to the organisation doing the right thing?

Employee board members

One of the obvious solutions to ensuring that the employee voice is heard, respected and integrated into the functioning of the board is for the board to include an employee representative. During 2016–2017, Theresa May's UK government conducted an extensive consultation process to explore the benefits of adding employee directors to UK boards. At the time, there was widespread anxiety and opposition to this. A key concern was the ability to find an employee director with the skills and calibre to act as a full company director, taking on the legal and fiduciary responsibilities and acting in the best interests of shareholders and stakeholders; there was a fear that the critical discussions and decision-making would move outside the formal boardroom.

There are some notable examples of employee board representation in the UK. FirstGroup plc has had an employee director on its board since 1996, and on the majority of its UK operating companies' boards since the founding of the company. The Group Employee Director (GED) is also a member of the responsible business committee and regularly attends the meetings of the remuneration and audit committees. However, I believe that the majority of UK and Irish companies would struggle to make the change to the FirstGroup plc model.

While the opportunity for radical reform in this area may have been missed, a positive outcome of the consultation was the introduction of new requirements in the 2018 UK Corporate Governance Code. The updated code includes measures requiring greater engagement with employees by the board. This is now expected to be enacted through one or more of the following measures:

- appointment of a director from the workforce
- establishment of a formal workforce advisory panel
- creation of a designated NED role focused on workforce.

In evaluating FTSE and **AIM** listed boards, it has been encouraging to see the difference that has been made through having one of the NEDs genuinely champion the board's understanding, engagement with and valuing of employees. I have also seen some outstanding examples of employee **AGMs** where the board stands in front of employees to thank them and to share the board's perspectives; this is done in close partnership with the CEO and executive team and – in my view – is a role model of servant-leadership that modern progressive boards should embrace.

Integrating the employee voice

When it comes to employee engagement, the most progressive boards I've seen have the following characteristics.

- The board chair champions the role of the employee voice in the boardroom. This is alongside strong support from NEDs setting a high bar on oversight of the executive team's performance when it comes to HR, and the thoughtful integration of employees into the overall functioning and decision-making of the board.
- An executive team that is walking the talk on respecting, empowering and rewarding employees, creating a progressive, modern culture where diversity and inclusion are celebrated and employees are inspired to deliver for their customers.
- Honest and insightful executive reporting to the board and remuneration committee on employee morale, workload, factors driving employee turnover and recruitment progress. This should have a particular focus on sharing unfiltered employee and culture engagement surveys and regular presentations by the chief people officer.
- One of the NEDs having a specific responsibility for championing the voice of employees in the boardroom and leading the board's regular engagement with employees, for example, through meeting groups of elected workforce representatives, employee AGMs, visiting regional and international sites and listening groups for frontline workers and supervisors. This is closely supported by the board chair and CEO.
- The board and remuneration committee taking a strong, active oversight role in employee remuneration structures, as well as encouraging innovative employee ownership and bonus structures that reward the employees for exceptional organisation performance.

Employee-centricity

As organisations look ahead to 2023 and beyond, the challenges facing the executive team, board and organisation to drive long-term sustainable success have never been greater. Employees are the beating heart of every organisation, and their critical importance needs to be respected, valued and championed by the board and executive team. While a critical priority of every organisation's ESG strategy is climate change, I strongly believe that organisations where the board and executive team truly partner with their employees are the organisations that will excel over the coming years.