



A guide to effective employee engagement

Should employees have a say in how the company they work for is run? At Legal & General Investment Management (LGIM), we believe the answer is a resounding “yes”.

Employees should be considered a valuable asset for any organisation. They are at the front and centre of operational processes and drive a company’s success and outperformance. This is why creating a structure through which their voice can be heard is crucial.

Giving employees the opportunity to engage with management on the future strategy of the business, their role in the organisation, benefits and working conditions serve a number of objectives. It allows them to understand the business, its purpose and aims; but also improves their sense of purpose and value within the organisation. This, in turn, helps to motivate and retain employees as well as deliver better overall levels of productivity.

There is **no one-size-fits-all solution to employee engagement**. Companies have adopted different methods. However, the ability of employee engagement to improve performance depends to a large extent on the organisation’s culture, the attitude, responsiveness and behaviour of senior management and whether they believe employees are more than human resources.

The importance of good corporate values and culture in a well governed company led the Financial Reporting Council (FRC) to introduce principles into the 2018 UK Corporate Governance Code. The provisions set out three methods of employee

engagement for companies to select one or more from. The Code requires those companies who have adopted a different method to explain why they believe it is right for their business and how it is effective.

The three methods set out in the code are:

- A formal workforce advisory panel
- A designated non-executive director
- A director appointed from the workforce

LGIM is aware that for many companies that are looking to select one of the three methods are at a very early stage in that journey and therefore the process is subject to revision. The examples below are only an insight into how some companies have approached this requirement – **it is still too early to demonstrate anything as best-in-class**.

1) A formal workforce advisory panel

There appears to be a variation on the adoption of this option. Some companies have created worker councils and others, worker forums or a mixture of the two; companies which have explored this option include Admiral, Taylor Wimpey, Next, Burberry, Experian and Whitbread.

We spoke further with Marks & Spencer to discuss its approach.

Each store, warehouse and support-centre function has its own local Business Involvement Group (BIG) made up of elected employee representatives. For store colleagues there are also Regional BIGs with representatives elected by the Store Chairs within that region. At the top of the representative structure is the National BIG which handles company-wide issues.

BIG representatives, except the national chair and deputy chair (full-time roles), are elected for five years and are then subject to re-election if they want to continue in office. Each person seeking election is required to have line-manager support to ensure they fully understands the requirements of the role before they submit their election manifesto.

Whether the issue is handled by local, regional or national BIG depends on the scope of the topic and how many employees it impacts. The National BIG meets monthly and the minutes are available to all colleagues via the BIG website. The National BIG Chair is formally invited to meet with the chair of the board of directors and the rest of the board twice a year and have an annual meeting with the Remuneration Committee. The board chair, chief executive and members of the operating committee are available to them throughout the year. The chief executive and members of the operating committee also regularly attend National BIG meetings.

Feedback to the workforce is via a monthly National BIG newsletter, intranet and Yammer (an intra-business social media platform).

2) Designated non-executive director (NED)

A number of companies have adopted this method: Centrica, GlaxoSmithKline, Rolls-Royce, ITV and RELX. We spoke to Barratt Developments, which has adopted a hybrid approach.

Barratt has developed a Workforce Forum which meets up to three times per year and comprises 10 individual members and 10 deputies. The executive committee select the members from geographically diverse locations and comprise a range of job levels from senior management to site managers. They serve a two-year term and are replaced by their deputies. The forum is chaired by the HR Director with the chief executive officer and chief operating officer acting as co-chairs. The designated NED attends at least one meeting a year.

The objectives of the forum are to achieve a closer engagement between the executive and the workforce, and ultimately to ensure that the board is kept aware of the views of its workforce. It allows employees to influence policy such as working conditions, ways

of working and inviting input regarding remuneration policy and key changes. The results of employee surveys are discussed and ideas for action are generated. The designated NED is available to the forum members outside the formal meetings via the company secretary. They carry out surveys to gain feedback from forum members as to how they feel the process is working, and what improvements; if any, should be made. They also have the scope to carry out pulse surveys – if necessary – throughout the year.

3) Employee director representatives on the board

Employee representatives on boards are a common feature in countries such as France and Germany. Although FirstGroup has adopted this approach for the past 30 years, in the UK, the idea is relatively new. Since 2018, a few companies have started to appoint an employee director onto their Board: Capita, Sports Direct and Micro Focus.

This is by far the hardest option as the individual selected to be appointed must have sufficient understanding of the business and its strategy to participate and contribute to any board debate. In addition, as a board director, they are accountable to shareholders and other stakeholders for the board's decisions.

For this reason, two of the three companies set tenure as criteria for any applicant (five years at Sports Direct and two years at Capita). Mears did not list tenure as a criterion but the person had to know the different parts of their business, therefore tenure was a factor in the ultimate selection process.

Other attributes included ability to voice opinions, an understanding and interest in the business, connect with employees and a willingness to learn. Some knowledge of the rights and duties of a director were needed although training was then provided to the selected candidate.

The employee director's purpose was to offer the employee perspective, guide the board on the effectiveness of internal communications and engagement and consider the impact of its operations on the community and environment. How involved they were in strategic decisions varied by company. Feedback to the workforce was through written reports and in person at sites. This was supplementary to other forms of internal communication such as newsletters.

What makes a good process?

LGIM does not consider any single model superior to another. All companies should embrace their employees as valued assets and select the method that is more effective for their business model and current circumstances.

There are factors which we have observed that can be conducive to a good process:

- Select a method that **builds trust** within the company, is valued by all employees and encourages participation
- A **clear mechanism for all staff to feed into the process**, regardless of whether that is through a regular meeting with their designated workforce member/NED/employee director or via email
- Clear **action plans** for issues that impact employees are distributed to all staff via newsletter or all-staff email. A dedicated page on the intranet with its existence made aware to all staff. Open and transparent communication is important to get employee buy-in to the process. 'Town Halls' should supplement written communication
- A **feedback** process for employees to help improve the process

- Employee engagement and staff **turnover** should be a score that is tracked over time, disclosed in the annual report and potentially linked to executive pay
- **Exit interviews** should be carried out by HR, the output reviewed by the workforce representative and any recurring themes should be investigated and reported to the board

We believe that sharing views internally can lead to innovation, problem solving and productivity as studies show that there is positive correlation between employee engagement and performance.*

In the future, we would like to see companies disclose in their annual report the **process adopted, examples of positive outcomes, improvements in employee engagement scores and staff turnover**. Greater public disclosure will increase awareness, improve practices, and can lead to greater productivity and long-term performance for all companies in the market.

*BEIS Report – Engaging for Success

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