WORTHWHILE WORKFORCE REPORTING

Good practice examples from the UK's biggest companies

CIPD

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

BOARD INTELLIGENCE - THINK TANK -

HIGH PAY CENTRE

RAILPEN

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FOREWORD FROM THE FINANCIAL REPORTING COUNCIL (FRC)

The last few years have demonstrated the importance of an engaged and motivated workforce to a company's success and resilience through challenging times

Five years ago, the Financial Reporting Council (FRC) introduced changes to the UK Corporate Governance Code to reflect the importance of the board's engagement with the workforce. The Code now plays an important role in providing a framework for engagement between investors and companies. It is up to companies to use the Code's flexibility to report meaningfully on how they have applied its principles, and for investors to engage constructively with companies on the information disclosed.

Recent circumstances have underlined the need for an effective, two-way dialogue between companies and their workers, and for more to be done to help companies build and maintain successful relationships with the broader stakeholder community.

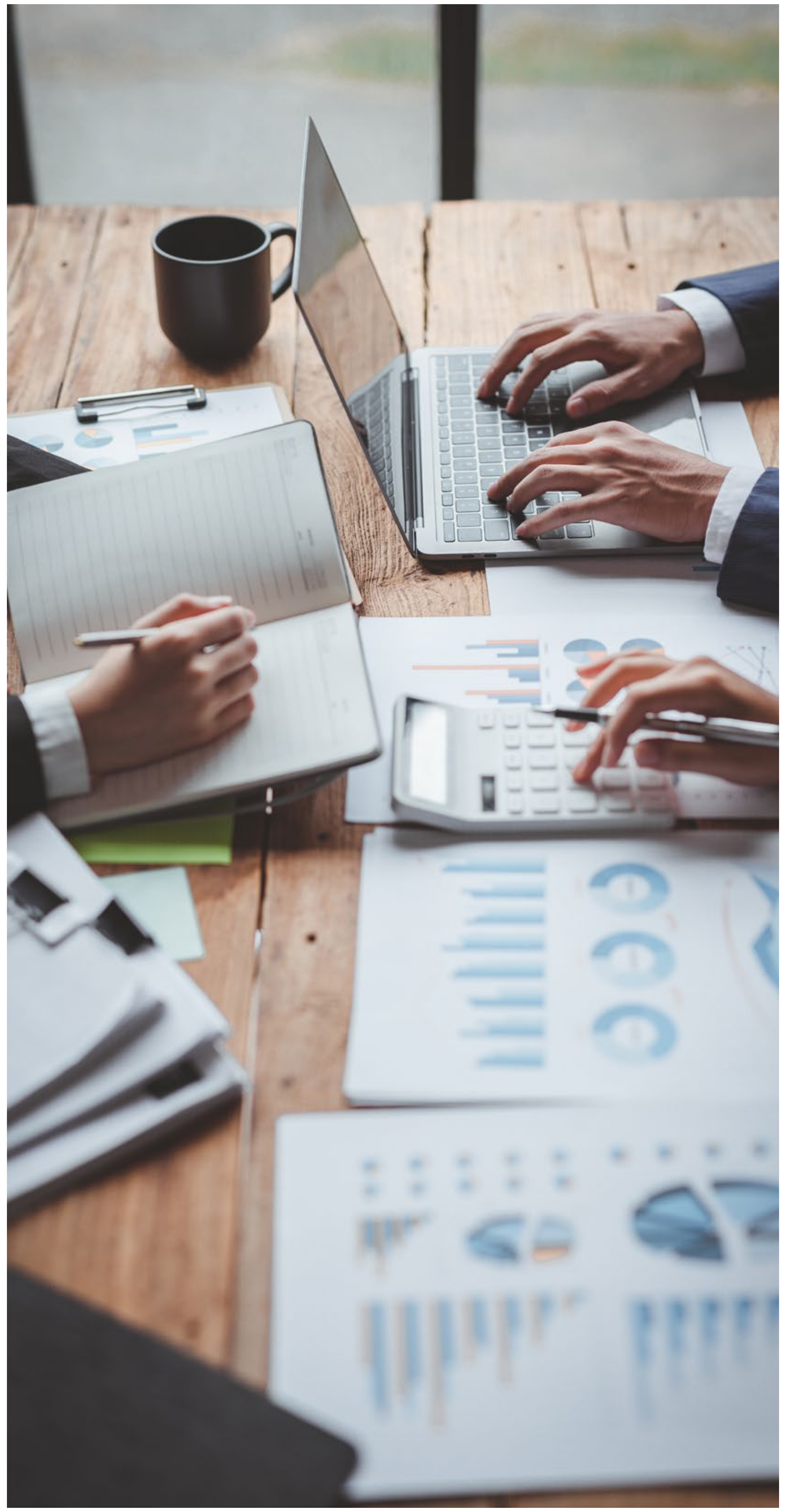
This guidance from Railpen, the High Pay Centre, the CIPD and the PLSA brings together perspectives from both corporate and investor communities to provide tangible examples of good practice workforce reporting, and it is a valuable tool for engagement and discussion.

The report builds on earlier analysis by Railpen and others, and its findings echo many of the FRC's own in the recent Review of Corporate Governance Reporting: that while workforce reporting is improving, it is too often insufficiently focused on actions and outcomes and does not reflect the good work companies are doing to engage meaningfully with their workers.

The FRC's latest Review of Corporate Governance Reporting highlighted the importance of reporting on the stakeholder engagement feedback cycle. Companies should include specific examples of initiatives implemented as a result of feedback from the workforce and report on the impact of these initiatives.

This guidance is a helpful and practical contribution which will support investor-company dialogue on workforce issues. Improved reporting will deliver more effective workforce engagement and, in turn, improved outcomes for companies, investors and workers.

David Styles
Director, Corporate Governance and Stewardship (FRC)



INTRODUCTION

The purpose of this guidance, produced by Railpen, the High Pay Centre, the CIPD, the PLSA and Board Intelligence, is to set out our view of what constitutes good workforce reporting and to highlight examples of best practice.

It promotes particular disclosures based on our previous programme of research incorporating analysis of existing academic and commercial studies of corporate reporting plus dialogue between companies, investors and other experts on the topic.

We hope the guidance will assist companies looking to improve their reporting, and support investors in their engagements with portfolio companies. In most cases, we have highlighted particular data points that help to explain a company's employment model and working practices – for example the staff turnover rate, the accidents and injury record or the number of workers who have undergone training programmes. At some points we have highlighted specific practices that we think are important and that companies should confirm in annual reports. This includes whether or not the company recognises a trade union or if claims made in reports have been externally accredited (for example by groups monitoring living wage levels or health and safety records).

The guidance is not intended to be prescriptive or imply that companies should mimic the case studies highlighted here in boilerplate form. Such an approach is unlikely to be the most meaningful for either companies or their investors. But it will hopefully provide helpful examples of the evidence that investors find insightful in terms of assessing companies' employment models and working practices. It will highlight why these are valuable and how they can be usefully reported in a way that balances the need for consistent, concrete, comparable data with the importance of contextualising that data with narrative detail.

Our guidance builds on, refers to and complements our previous research. This analysed the quality of workforce disclosures in FTSE 100 annual reports published in 2021, according to a framework we developed and covered a wide range of workforce-related topics. This research, and therefore the examples cited in the guidance, focused on the largest UK companies. However, we think that our guidance will be of interest to companies in other jurisdictions too.

Interest in workforce-related corporate reporting in the UK is perhaps greater than in some other countries[1]. However, employment models are integral to business strategy and of major relevance to investors across all companies, regardless of their home market and the jurisdiction(s) within which they operate. Therefore, we hope that this guidance will be of value to anyone preparing an annual report, or other communication aimed at investors and other stakeholders, regardless of their home market.

[1] *Partly driven by UK-specific legal and regulatory factors, such as the provisions on workforce engagement mechanisms in the UK Corporate Governance Code and what are called "Section 172" requirements for companies to report on how directors have fulfilled their responsibilities to have regard for the interests of different stakeholder groups, including their employees.*

How we have structured the report

This report is structured in a way which we hope will be intuitive both to individuals preparing reports for companies, and to investors. We start by elaborating on some general principles of good reporting on workforce issues. We then explore the five key reporting themes – in terms of financial materiality to companies, and as outlined in our previous research – in more detail in the following chapters:

- **Workforce cost and composition**
- **Employee relations and wellbeing**
- **Reward**
- **Worker voice**
- **Skills, capabilities and recruitment**

At the beginning of each chapter, we explain what the theme means, and why reporting on it is important to investors looking to understand the relationship to the company strategy and business model. We provide 'deep dives' on specific issues we think are particularly worth highlighting.

We then provide an example of good practice from a FTSE 100 annual report for each data point or metric. Where relevant, we detail what it is that makes each example useful to investors.

We also flag the appropriate Workforce Disclosure Initiative (WDI) metric to help companies understand what to report, and how, regardless of which major framework they use[2]. To suport readers, we provide all references in the appendices to this report and suggestions for further reading, including the Financial Reporting Lab's 2020 work on workforce-related corporate reporting.

What we expect companies to cover

Good workforce reporting by companies should touch upon at least some data points or metrics within each of the five themes outlined. These themes are material to all organisations in terms of contribution to a healthy culture, value creation and in helping investors identify material risks associated with the workforce.

However, we would not expect all companies to report on every data point included in the framework: good reporting is not a question of quantity alone. Companies should be considering which data is most relevant to their workforce and strategy – and which are, accordingly, material to investors. Furthermore, we do not intend the examples in this document to be used as precise templates by other companies. Rather, they are examples of how to put good reporting principles into practice. That said, the particular disclosures that we highlight have been selected, in part, because of their potentially wide applicability to a range of different industries and markets.

The volume of corporate reporting

We recognise that companies are subject to demands for growing volumes of information from investors and that there are a number of frameworks for reporting employment practices. However, the disclosures we recommend link to those of the Workforce Disclosure Initiative (WDI) as a way of minimising the competing demands placed upon companies and supporting companies to produce disclosures that will be appropriate across several different frameworks.

Similarly, many companies publish sustainability reports, detailing their environmental and social impact in more detail. We welcome carefully-designed and thoughtfully-produced sustainability[3] reports, and other related disclosures, which contain material and well-articulated information and which are separate from annual reports. However, we note that inclusion of sustainability information in annual reports is a powerful statement regarding a company's recognition of the financial, operational and strategic materiality of several ESG issues. Doing so may also mean less work for preparers of financial information.

Sensitivities around certain workforce data

We acknowledge that certain information can be sensitive, making it difficult to collect – or to disclose – in any format. Examples of such information are sexual orientation, ethnicity and absences relating to mental health. Some jurisdictions restrict the collection of certain types of data, or make it potentially dangerous, and employees' willingness to disclose this information varies according to geography and culture.

Investors are pragmatic regarding the collection and disclosure of such information and, as with other material ESG issues, will take the context of a particular firm's workforce, sector and jurisdiction into account.

[2] *We also suggest that readers look at the Sustainability Accounting Standards Board (SASB), which provides some industry-specific human capital indicators.*

[3] *We are grateful to the Workforce Disclosure Initiative for their help and insights regarding our use of their indicators in this guidance.*

GENERAL PRINCIPLES OF GOOD WORKFORCE REPORTING

Key principles of good workforce reporting

Good workforce reporting should:

1. be linked to a company's strategy and performance
2. include an appropriate mix of data and narrative
3. be balanced and self-critical
4. focus on targets
5. use consistent data points over time
6. include both directly employed and contingent workers
7. be disaggregated (where appropriate)
8. have received some kind of external, independent assurance

The principles that ensure workforce reporting is meaningful, material and useful for investors and other stakeholders, are broadly the same as for effective corporate reporting on any other issue.

However, there are some particular considerations for workforce reporting by companies. Here, we highlight both general principles and those that are more workforce-specific in the hope that this will help companies wherever they are on their reporting journey[4].

1. Linked to corporate strategy and performance

While we often see companies stating that their workforce 'is their greatest asset', this is not always accompanied by concrete evidence of how employment practices relate to the firm's wider strategy. Companies should include an explicit discussion of how, and in what ways, their employment practices relate to value creation and the risks and opportunities associated with workforce issues.

Drawing out the company-specific features will be important here. A boilerplate statement about the importance of the workforce will not be deemed sufficient by investors.

Example 1: BAE Systems annual report 2020, p.99 and p.40

The BAE Systems risk register (p99) identified 'people' as a principal risk, stating that: "The Group's strategy is dependent on its ability to recruit and retain people with appropriate talent and skills." The report subsequently discusses BAE Systems' support for Science, Technology, Engineering and Maths (STEM) subjects and commitment to investment in skills and apprenticeships, potentially boosting the number of people with the highly sought-after skills that their business depends upon.

The strategic report (p.40), also notes that an inclusive and supportive working environment enables employees to do their best work. This high-level statement is made more substantial by noting concrete actions. This included giving managers diversity training and incorporating diversity requirements in objectives for recruiters.

[4] *Further details of the broader principles can be found in the CIPD/High Pay Centre/Railpen/PLSA report How do companies report on their 'most important asset' (2022).*

2. An appropriate mix of data and narrative

Both data and narrative are necessary for stakeholders to understand a company's employment practices. Data enables year-on-year comparability, but may give a partial or misleading picture without explaining its context. Our previous research found that, at present, narrative dominates. Each of our themes was discussed by the majority of companies in narrative terms, whereas the use of data was more piecemeal.

Nonetheless, narrative is still important, as investors and other stakeholders want companies to tell a story. A clear corporate narrative will include an explanation as to:

- what data points or metrics are being used
- why these metrics have been chosen, including the level of financial materiality
- what steps have been taken to achieve progress
- the outcome of these steps and what they have learned from this
- how the issue ties in to company strategy

Example 2: ITV 2020 annual report, p.48-49

In its section on diversity and inclusion, ITV uses a balance of data and narrative reporting. It gives data on the current levels of representation in terms of gender, LGBTQ+ and disability. This is accompanied by a narrative setting out clearly how the organisation aims to improve diversity and inclusion. This includes an outline of its five key areas of action, and discussion of the activities that the company is undertaking to achieve these.

3. Balance and a self-critical approach

Even companies with the most widely-lauded employment practices will not be perfect. Investors are pragmatic about this, but want companies to be honest in their annual reports. This demonstrates a welcome commitment to continuous improvement and a lack of complacency. It also gives investors greater faith that the positive information provided in the annual report can be trusted, and that companies have not simply 'cherry-picked' the best data.

Long-term investors are willing to listen. This is particularly highlighted by growing investor interest in, and discussions of, whistleblowing. Every investor recognises that large organisations will have more than zero incidences of whistleblowing each year. Companies that provide meaningful reporting of incidences of whistleblowing and how they have responded are likely to have better relationships with their investors. This is the case even where the reporting highlights malpractices at the company as identified by the whistleblowing.

Those companies that are transparent about issues within their organisation and have processes in place to identify and act on these issues are likely to thrive in the long-term, even if this occasionally brings areas for improvement to light.

Example 3: Experian 2021 annual report, p.48.

Experian disclosed that 20% of its Brazilian workforce identified as black. It contrasted this with the wider Brazilian population, of whom over half identified as black, highlighting the need to improve in order to be more representative of the society in which it operates. The report set out steps being taken to address this issue: the report discussed systemic barriers to racial equality and how Experian is trying to overcome them in its employment practices.

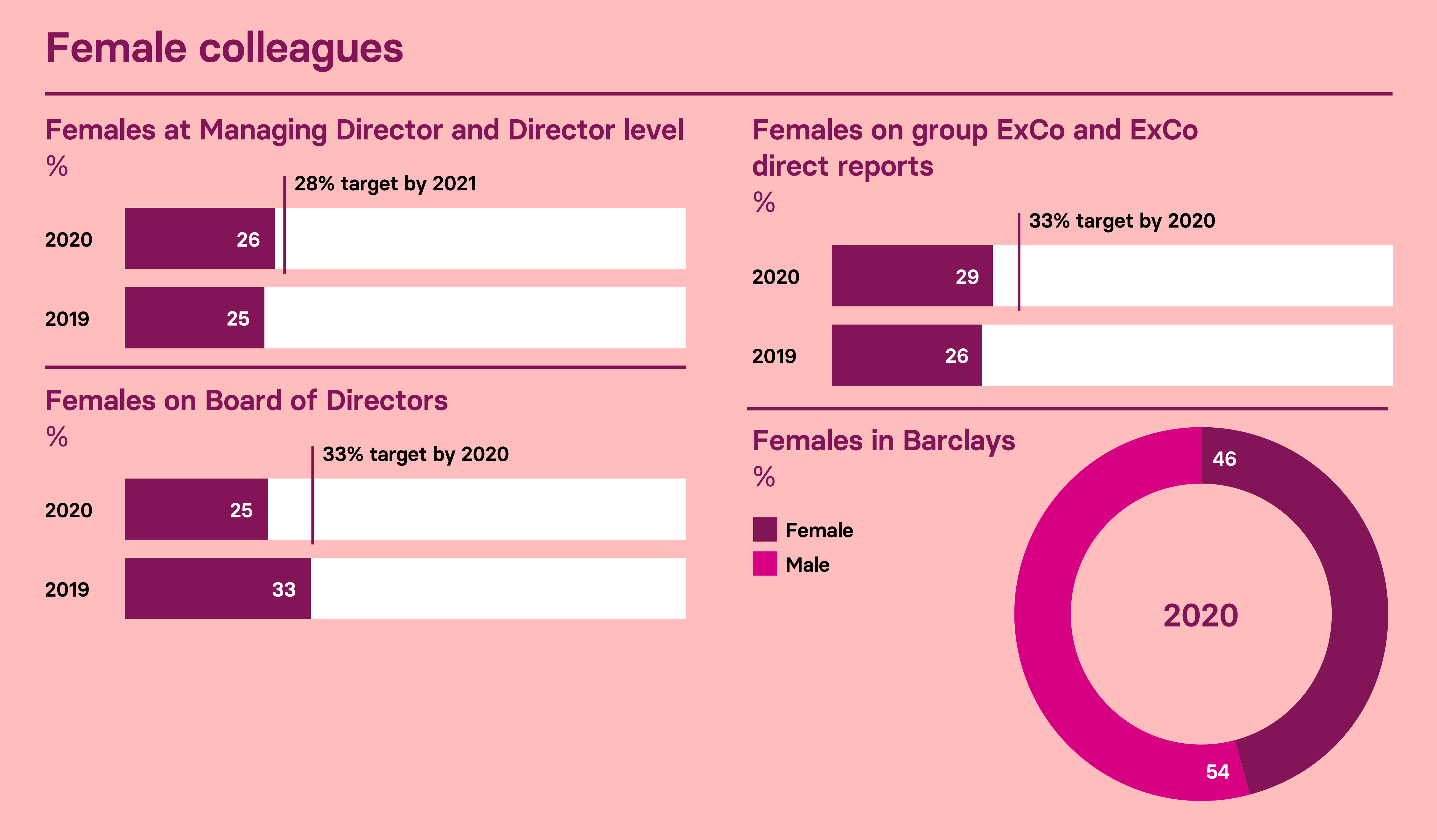
4. Focused on targets

The inclusion of retrospective and forward-looking targets, alongside narratives on what progress has been made, provides helpful context for investors and additional demonstration that a company is committed to continuous improvement. Targets should ideally be outcomes-focused and stretching, with a rationale provided as to why they have been set at a certain level.

Reporting should include information on targets that have not been met, as well as demonstrating an understanding of the level of progress against peers.

Example 4: Barclays annual report 2020, p34

Barclays provided data regarding women in management positions at the company. This outlines targets for the forthcoming year, whilst also providing data for the previous year. This allows performance to be grounded in context of how much progress has been made, and how much is still yet to be achieved.



5. Historically consistent

Provision of the same data year-on-year, presented in a consistent fashion, enables investors to understand how a company has changed over time. Our previous analysis found that reporting on performance against workforce metrics rarely covered periods longer than three years. This is too short a period to really uncover significant trends or changes. We hope that as the demand for better and more detailed information on workforce-related issues increases, companies will gather a greater volume of data. This would mean that over time it will become easier to report against more metrics over a longer historical period.

Example 5: BP annual report 2020, p.41

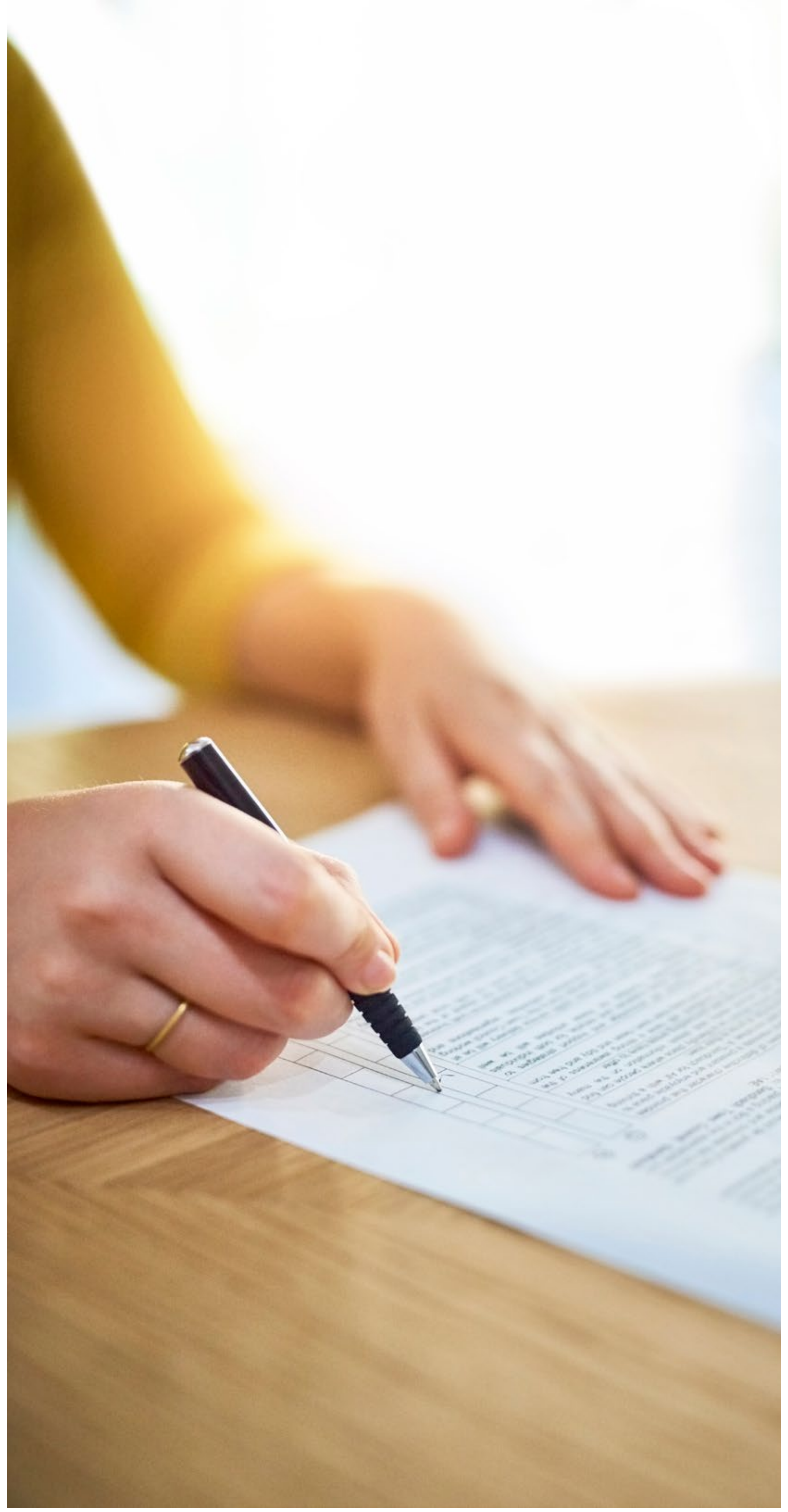
BP provided data from its annual employee engagement survey for every year back to 2016. This provides a clear year-on-year comparison without having to refer back to old reports. BP noted how years prior to 2017 contained a different set of questions, which means that scores are not directly comparable.

Employee engagement (%)

We conduct an annual employee survey to understand and monitor levels of employee engagement and identify areas of improvement.

2020 performance

The overall employee engagement score saw a marginal decline since last year. We are working to identify areas for improvement. Scores prior to 2017 are based on questions on priorities set out in 2012, so the numbers are not directly comparable.



6. External audit or independent verification

Highlighting external accreditation or independent assessment, such as the Living Wage accreditation, the Pension Quality Mark or 'triple bottom line' audits that cover a company's social impact, is a way of helping to reassure stakeholders of good employment practices. Even if companies report against a framework of useful metrics relevant to their business model, this is still of little value if the data and accompanying narrative could be subject to errors and inaccuracies. Reputable external and/or independent accreditation helps safeguard against this risk.

Example 6a:
Croda International annual report 2021, p.84

After gaining accreditation from the Living Wage Foundation as a UK Living Wage employer, Croda worked in partnership with the Fair Wage Network to pay at least a living wage to all employees (temporary and permanent) in all countries in which it operates.

Example 6b:
JD Sports annual report 2021, p.107

JD Sports received a Gold award from Royal Society for the protection against accidents, independently verifying the health and safety standards within its workplaces.

7. Discuss the whole workforce

Indirectly employed[5] workers often make up a substantial and valuable portion of the workforce, such as cleaning, security, IT and catering. Yet companies rarely report even the basics regarding numbers and use of indirectly employed workers, let alone include them in disclosures relating to the five priority themes we highlight in this guidance.

We acknowledge that it can be difficult to know which indirect workers to include, as some are extremely transient. However, long-term investors increasingly recognise the importance of fair treatment of all a company's workers as material to financial performance. As more companies in the 'gig economy' use indirectly employed workers, clear reporting is increasingly vital. To provide greater certainty for companies on this issue, we suggest that companies use the Living Wage Foundation's definition of indirect employees: "Those who work regularly, for two or more hours a week, for eight or more consecutive weeks a year."[6]

The following excerpts exemplify best current practice we could find on reporting beyond directly employed workers. However, companies would ideally report on both direct and indirect employees for all of the themes we highlight this report (workforce cost and composition, employee relations and wellbeing, worker voice, reward, recruitment and skills and capabilities).

Example 7: BHP 2020 annual report, p.35

BHP's annual report details the accident and injury rate for both BHP employees and contractors. This gives investors an insight into how directly and indirectly employed workers are managed. This is important given that, in some cases, companies may have less oversight over the recruitment/management of contractors, meaning that risk factors may be heightened.

8. Disaggregated (where appropriate)

For companies operating in diverse industries or markets, group-wide averages potentially obscure particular workplace-related issues in key markets or sectors that might prove damaging to the company or hinder identification of strengths or opportunities that will be of benefit to the investment case. Providing disaggregated data enables the company and investors to understand any particular strengths or areas of risk.

Example 8: Rio Tinto 2020 annual report, p.77

Rio Tinto disclosed turnover rates broken down by age, gender and location.

Employee hiring and turnover rates[(a)(b)(c)] (2020)

	Gender[(d)]		Age group				Region				
	Female	Male	Under 30	30-39	40-49	Over 50	Africa	Americas	Asia	Australia/ New Nealand	Europe
Employee hiring rate[(e)]	29.5%	70.5%	40.7%	30.7%	18%	10.6%	1.8%	33.3%	5.8%	54.9%	4.2%
Employee turnover rate[(f)]	7.2%	6.9%	8.5%	5.8%	5%	9.7%	5%	6.1%	3.9%	8.3%	8.9%

Conclusions – general principles of effective workforce reporting

The golden rule for reporting of any material financial information, including sustainability and governance data, is that companies should provide a clear rationale for the data points they disclose and how they link to the case they are making for their vision of the company's future.

When reporting on their workforces, we expect all companies to ensure they are abiding by the broader principles set out in this section. Our next five chapters provide detailed examples across each of the five themes to help companies understand more clearly what investors consider to be good practice in this space. Where relevant, we also provide 'deep dives' on workforce data that is either an emerging area of good practice, or particularly of interest to either the investment community or policymakers.

[5] *The Trades Union Congress (TUC) defines indirectly employed workers as those who are: "Employed through agencies, umbrella companies or other third parties, the self-employed, casual and other seasonal workers or a significant proportion of those on zero-hours or short-hours contracts."(TUC, 2021 Restoring Trust in Audit and Corporate Governance).*

[6] *See the UK Living Wage Foundation's FAQs.*

WORKFORCE COST AND COMPOSITION

Why this matters to investors

Workforce costs

The workforce represents one of the largest costs to companies, as well as one of the principal sources of value as a return on those costs. It is thereby of particular interest to investors. However, it is particularly important that this information is disaggregated so that investors can better understand where and how resources are being deployed.

Workforce composition

Workforce composition is a key element of a company's strategy, including who works for the company, where they work, and in what capacity. Composition can be understood in two key ways:

1. **Employment type** has implications for workforce stability. For example, if a large proportion of a company's workforce is employed through agencies on a short-term basis, there may be high turnover levels.
2. **Demographic** determines how representative a company is of the communities it serves, which can impact its social licence to operate.

Disclosure of gender balance for boards, managerial staff and all employees is mandatory in the UK for companies with more than 500 employees (although this does not necessarily have to be disclosed in the annual report). It is therefore not included in our list of recommended metrics.

Deep dive: Indirectly employed workers

Companies in the UK are required to report on the number of employees and the total costs of compensation and benefits of these employees in their accounts. However, they are not required to report on the extent or cost of hiring contingent labour of any kind, such as subcontractors or outsourced workers.

Most FTSE 100 companies have a large number of subcontracted and/or outsourced roles, covering numerous functions such as IT, security, catering and cleaning. Many of the high-growth companies in the US, UK and elsewhere also have business models that rely heavily on the contingent workforce (this includes household names such as Uber, Lyft and Deliveroo).

Indirectly employed workers are often responsible for a significant proportion of companies' operations. Their employment costs potentially amount to a significant additional expenditure while their pay and conditions have possible reputational implications for companies, as indirectly employed workers often perform some of the lowest-paid and most insecure work. This can lead to higher turnover, poorer mental and physical health among workers and the risk of reduced operational and thereby financial performance.

As such, the extent and cost of these roles should be included in discussions on workforce composition and costs. However, this is rarely the case at present. Most companies provide virtually no information on indirectly employed workers, and even those we identified as constituting the best existing practice provided minimal disclosure, despite their significance to the business strategy and operational performance.

This gap may be attributable to a few factors. Companies may not collect information on their indirect employees in the same way as they do for their direct employees, either because it is more difficult to collect or because they do not perceive it as necessary. The information that they do collect, they may not wish to publish if it reflects poorly on the company. Another major factor is company employment practices. For example, it is extremely rare that indirect employees are included in workforce engagement mechanisms, and this means that companies are not likely to discuss indirect employees in their discussions of worker voice.

All of these obstacles can be overcome, though we recognise that addressing them will be a long-term process for many companies.

Data points and disclosures

Workforce costs

WDI 3.1

Total cost of indirectly employed workforce
Most FTSE 100 companies, and several high-growth firms in the 'new economy', have a large number of subcontracted and/or outsourced roles, covering functions such as IT, security, catering and cleaning. As such, investors expect these costs specifically to be included in discussions on workforce costs.

Example: NatWest 2020 annual report, p.270

In Natwest's accounts, it disclosed the total cost of its temporary and contract workers, as well as the number of its temporary workers.

Workforce composition

Use of outsourced and/or agency workers

WDI 3.3-3.5, 3.8, 8.5, 8.6

As noted in the deep dive on page 11, while outsourcing workers may suit the nature of many businesses that are, for example, seasonal or operate from project to project, these workers are often subject to the lowest pay and poorest working conditions[7]. The short-term nature of their employment can also have implications for the extent of their training and commitment to the company.

In general, while there are a few companies that provide some detail on the extent of their outsourced work, details of pay, conditions or the nature of the work was one of the most poorly reported areas covered by our previous research. The following examples were chosen from a markedly small pool.

Example: Standard Chartered annual report 2020 p.435

In a section titled 'supplementary people information', Standard Chartered disclosed data on 'non-employed workers (NEWs)', broken down into 'outsourced NEWs' and 'non-outsourced NEWs'.

Example: BT annual report 2021, p.34

BT reported that it employs 1,700 staff through agencies.

Extent of temporary/contract workers

As with outsourced workers, the use of short-term or contract-based workers often has implications for the levels of of pay, working conditions or training across the broader organisation. And again, as with for the use and nature of outsourced workers, the use of short-term or contract workers was not generally well reported on by companies.

Example: Melrose annual report 2020, p.79

Melrose disclosed data on the number of employees in temporary positions.

Example: Rio Tinto annual report, p.77

Rio Tinto provided data on the number of contractors, broken down by geographical region.

Proportion of full- or part-time staff

Even within directly employed permanent staff, the balance of full- and part-time workers has similar bearing on the pay, conditions and training of staff. It is again relevant to investors keen to understand the company's employment model and the associated opportunities and risks.

Example: Experian 2021 annual report, p.116

Experian disclosed employee composition data on the percentage of the workforce that are part-time, full-time, temporary and contractors. It also gave an explanation of the benefits of having a largely full-time, permanent workforce, such as enhancing collaboration, while noting that the business maintains a small number of temporary workers too.

Job level and/or seniority

How a company is structured provides an insight into its corporate culture, the distance from the boardroom to the frontline, the extent of and approach to hierarchy and the possible distribution of costs – on the basis that senior managers are very likely to be higher paid.

Example: Barclays 2020 annual report, p.35

Barclays disclosed it workforce composition by grade, including senior, middle and junior roles.

[7] *See, for example, Oxford Internet Institute (2021), Oxford report reveals best and worst practices in gig economy via oii.ox.ac.uk/news-events/news/oxford-report-reveals-best-and-worst-practices-in-gig-economy*

Diversity across protected characteristics

WDI 3.4, 3.6, 4.1 – 4.10

Demographic diversity demonstrates the extent to which a company reflects and understands the society in which it operates. A workforce that is diverse across ethnicity, gender, sexual orientation, disability and age can suggest that a company is a welcoming employer to people from all backgrounds, and that it is maximising its potential by not limiting the pool of people from which it recruits.

Example (ethnicity): Experian 2021 annual report, p.48.

Experian disclosed that 20% of its Brazilian workforce identified as black. It also stated that this compares negatively with the Brazilian population as a whole, of whom over half identified as black.

This critical lens is useful and reassuring as it shows that the company recognises the need to improve. We also welcome the explanation of the country-specific context, which for ethnicity and race statistics is particularly helpful.

Example (disability): Autotrader annual report 2021, p.51

Autotrader disclosed the percentage of colleagues that have declared a disability or neurodiversity. It supplemented this data with an explanation of how Autotrader has worked to increase awareness within the organisation through its “Disability and Neurodiversity Network”, which partners with charities and works to create an inclusive environment.

Deep dive: Diversity and inclusion

Having a diverse workforce in terms of background, experience and across protected characteristics makes good business sense. It suggests the company is attractive to a wider range of candidates and therefore a wider range of talent which more closely reflects the breadth of the customer base.

Diversity is also a useful safeguard against behavioural biases such as ‘groupthink’, i.e. where assumptions inherent in a discussion or decision are left unchallenged by groups of people with very similar backgrounds and/or personal and professional life experience.

On this basis, there has been considerable interest in diversity at boardroom level from a corporate governance perspective. But the benefits of diversity apply within the wider workforce too. Therefore diversity, or lack thereof, is a key component of a company’s business model, as well as being an important contributor to workplace culture, and of great interest to investors.

As interest in the topic has increased in recent years, reporting on forms of diversity has also become more commonplace. It is important that inclusion is not neglected – this means demonstrating that a diverse range of backgrounds is represented in the business, but also that people of all backgrounds feel valued, welcomed and supported in their work.

Investors recognise that gathering data and reporting on ***sexual orientation*** can be a sensitive activity in some companies, sectors and jurisdictions and will be accordingly pragmatic in engagements with companies.

Example (sexual orientation): ITV annual report 2020, p.48-9

ITV disclosed the percentage of the workforce who identify as LGBTQ+. It also gave targets to meet by 2022 for on-screen and off-screen diversity. Breaking this down by on-screen and off-screen ensures that representation is across the board, rather than focussing simply on the appearance of inclusivity. Furthermore, ITV disaggregated data by level of seniority, and disclosed the percentage of management who identified as LGBTQ+.

ITV's reporting approach is strong because it is data focused, whilst also supplementing this data with narrative reporting on how the organisation is focused on achieving and improving diversity and inclusion. For example, it states that it has a diversity and inclusion council chaired by the CEO, which meets quarterly (p.49).

In addition to being a useful form of demographic and cognitive diversity for reasons previously outlined, the breakdown of the workforce by ***age*** also helps investors to understand the levels of professional and life experience across the company and the potential for the company to fill its employment needs over the longer term.

Example (age): BHP annual 2021 report, p.269

BHP has broken down employee composition into age groups (under 30, 30-39, 40-49, 50+). These age groups are then further broken down by level of seniority.

		Gender%		Age group %				Ratio male to female	
Category	Total%	Male%	Female%	Under 30	30-39	40-49	50+	Average basic salary US$	Average total renmeration US$
Senior leaders	0.7%	72.1%	27.9%	0.0%	12.0%	53.9%	34.1%	1.08	1.13
Managers	3.3%	70.1%	29.9%	0.4%	28.2%	45.5%	25.9%	1.05	1.08
Supervisory and professional	40.0%	67.3%	32.7%	10.2%	40.9%	30.9%	18.0%	1.14	1.17
Operators and general support	56%	76.4%	23.6%	17.3%	30.3%	27.1%	25.3%	1.28	1.33

We found no complete examples of reporting by ***social class or family income***, which is increasingly recognised as a key aspect of diversity and social mobility. Evidence suggests that the contacts, confidence and familiarity with the culture of high earning or high status roles can give people from richer and more advantaged family backgrounds an edge in pursuing these types of roles, even when their capability or potential may be less than that of other candidates[8]. This means companies can miss out on recruiting the best candidates. There are multiple examples of companies implementing programmes to expand access to roles within their company or to mitigate biases in their recruitment processes. However, it would be good to see evidence of the extent to which companies have made progress in achieving more representative diversity of socio-economic background in terms of the actual outcome rather than the inputs designed to deliver it.

[8] *For instance, see the UK Social Mobility Commission's State of the Nation 2018-2019, or Who gets ahead and how? from the City of London Corporation and Bridge Group (2020).*

EMPLOYEE RELATIONS AND WELLBEING

Why this matters to investors

Wellbeing is a holistic category encompassing mental health, physical health and a sense of fulfilment and purpose at work. It is a major determinant of how committed workers are to their employer[9], and as such it has a substantial effect on attrition and retention, as well as on motivation, productivity and workforce engagement and the company's reputation. Where employee wellbeing is inadequately managed, consequent legal or regulatory action may become financially material to the business.

We recognise that some of the metrics in this chapter are particularly sensitive for companies. However, a complete absence of relevant metrics raises more questions for investors than honest and fairly presented metrics, accompanied by relevant narrative and context.

Data points and disclosures

Turnover rate

WDI 6.1 – 6.3

Staff turnover is a useful proxy for staff satisfaction, motivation and workforce stability. High turnover can mean the loss of experience, as well as increased recruitment and training costs. This is perhaps one of the most useful metrics for investors on workforce issues, particularly when accompanied by insightful narrative and, ideally, set against previous data on the same issue. It is important to emphasise that some degree of turnover is necessary and healthy – to bring fresh ideas and approaches and to ensure company is attracting new workers to equip it for the future – and that the appropriate level will vary according to time, sector and company.

Example: Rio Tinto 2020 annual report, p.77

Rio Tinto disclosed turnover rates broken down by age, gender and location. This enables the company and investors to identify strengths or areas of risk.

Employee hiring and turnover rates[a][b][c] (2020)

	Gender[d]		Age group				Region				
	Female	Male	Under 30	30-39	40-49	Over 50	Africa	Americas	Asia	Australia/ New Nealand	Europe
Employee hiring rate[e]	29.5%	70.5%	40.7%	30.7%	18%	10.6%	1.8%	33.3%	5.8%	54.9%	4.2%
Employee turnover rate[f]	7.2%	6.9%	8.5%	5.8%	5%	9.7%	5%	6.1%	3.9%	8.3%	8.9%

Exit interview data/reasons for leaving

Exit interview data is a useful complement to staff turnover in explaining why people leave the organisation. It can reassure investors that processes are in place to identify employment issues and that these are known and understood with measures underway to address them. But it can also tell a positive story – for example, if the company has helped employees develop their skills and move on to new opportunities.

Example: London Stock Exchange Group annual report 2020, p.58

LSEG disclosed the percentage of leavers who cited work life balance as the primary reason for leaving. This was given in the context of data from previous years.

[9] *See, for instance, the CIPD factsheet on Wellbeing at Work (2022).*

Accident and injury rates and/or fatalities

WDI 8.3 – 8.6

Investors expect companies to do their utmost to minimise accidents, and any that result in serious injury or death should be acknowledged in reporting. As well as being important from a human perspective, accident and injury rates provide an insight into the general rigour of a company's working practices and also potential susceptibility to legal action or adverse relations with communities and political authorities.

Example: Polymetal annual report 2020, p.56

Polymetal continually referenced health and safety throughout the annual report. The company discussed processes which it has undertaken in order to improve measures of health and safety, as well as setting concrete targets for the future.

Health and safety

• Ensure zero facilites	• 0 reportable facilites	✓
• Maintain LTIFR below 0.2	• 0.12 LTIFR (2019: 0.19)	✓
• Year-on-year decrease in absent days following accidents	• 1,583 abscent days following accidents (2019: 1,760)	✓

Example: Mondi 2020 annual report, p.46

Data has been provided on a historically consistent basis, with "employee and contractor safety and health" being one action area for the "Growing Responsibly Model" Mondi used between 2016-2020. Using a historically consistent metric, in this case "total recordable case rate", provides a reliable methodology for reviewing progress towards a goal. There is narrative provided on targets which have not been achieved, as well as clear dialogue on how the company intends to improve its performance going forward.

Mondi provided extra detail by disclosing accident rates broken down by employees versus contractors, which is a welcome detail and aids in building a more comprehensive picture of the systemic factors which would affect staff safety.

Deep dive: Health and safety

Health and safety is one of the most critical workforce areas on which companies should report.

As well as the human cost, from a financial perspective, a poor health and safety record indicates operational problems and suggests that the companies' fundamental business activities are not being managed in an efficient, professional and legally compliant way. Furthermore, human consequences of a poor health and safety record, especially where serious injuries or even deaths are involved, inevitably mean that major public scrutiny and criticism with potential adverse political consequences for the company will follow. Senior figures within the company are likely to find their positions under pressure while investors are also likely to be questioned around their investment.

There are multiple examples from recent years of major health and safety failures where this has proved to be the case. As such, good reporting on how companies intend to reduce health and safety risks and their record in doing so are absolutely critical. In sectors perceived to be high risk, such as manufacturing or extractive industries, reporting has become increasingly detailed.

However, alongside physical health and safety, mental wellbeing is also important. Reporting of the workforce's mental health is much less common in high-pressure industries like finance, or in sectors where low-paid work in factories, warehouses or food processing centres, for example, is combined with highly demanding management styles. Given the growing recognition of mental health issues in society, it is to be hoped that this will improve in coming years.

Evidence of conducting a health and safety risk assessment

Related to accident and injury rates, in industries where there are ongoing risks of fatalities or major incidents, details of risk assessments can reassure investors that processes are in place to firstly reduce the risk of a human tragedy, and minimise the reputational and financial risks associated with a cavalier attitude to health and safety.

Again, this is most relevant to companies in high-risk sectors, but companies not in sectors where there has traditionally been a high incident rate are also encouraged to think more broadly about the current or potential risks to their workers' physical or mental health.

Example:
Royal Mail 2020/21 annual report, p.37

Royal Mail discussed the dangers for its workforce that might arise due to climate change and how it assesses the risk of flooding and other extreme weather events.

Mental health and wellbeing

WDI 8.8 – 8.11

Employee health and safety includes mental health as well as physical health. Just as with poor physical health and safety standards, poor mental health can be an indicator of corporate culture and governance issues. Mental health problems can be caused or exacerbated by work. For example, by low pay, overwork, stress, workplace bullying or harassment. It therefore makes sense to provide data on mental health and wellbeing alongside that on physical accidents and injuries.

Example: Standard Chartered 2020 annual report, p.58.

Standard Chartered reported the proportion of employees experiencing high levels of work-related stress. This helps demonstrates that Standard Chartered is taking its responsibility to safeguard the wellbeing of staff seriously. It is especially noteworthy as the number of workers with work-related stress might reflect negatively on the company, so the disclosure indicates that Standard Chartered is willing to be transparent and engaged with areas in which it needs to improve.

Absence rates

WDI 8.5

As with staff turnover, absenteeism is a useful proxy for employee mental and physical health. High absence rates can point to unhealthy and possibly overworked staff. This in turn results in lower productivity – therefore a reliably reported falling/rising figure for staff absences or one that is high/low relative to comparable companies provides a useful insight into company performance.

Example: BHP 2021 annual report, p.269

BHP disclosed its absenteeism rates broken down by location, usefully demonstrating the statistics.

			Employees by gender number and %						
Region	Average number and % of employees		Male	Male%	Female	Female%	Average number and % of contractors		Average no. hours (EE) absenteeism rate
Asia	1,907	5.5	735	38.5	1,172	61.5	2,474	5.9	27.4
Australia	23,828	69.1	17,530	73.6	6,298	26.4	21,467	51.2	88.5
Europe	54	0.2	25	46.3	29	53.7	8	<0.1	3.0
North America	1,299	3.8	840	64.7	459	35.3	1,333	3.2	31.6
South America	7,390	21.4	5,674	76.8	1,716	23.2	16,630	39.7	59.3
Total	34,478	100.0	24,804	71.9	9,674	28.1	41,912	100.0	77.7

Flexible working practices

WDI 2.13, 4.11

There has been a growing interest in work-life balance. The increasing technological capacity to work remotely, plus the cost, time commitments and environmental impact associated with commuting and the costs and lifestyle limitations that might result from living close to particular workplaces means that many workers now want the option to work from outside the office at least some of the time. This is particularly the case where they have done so successfully during the pandemic.

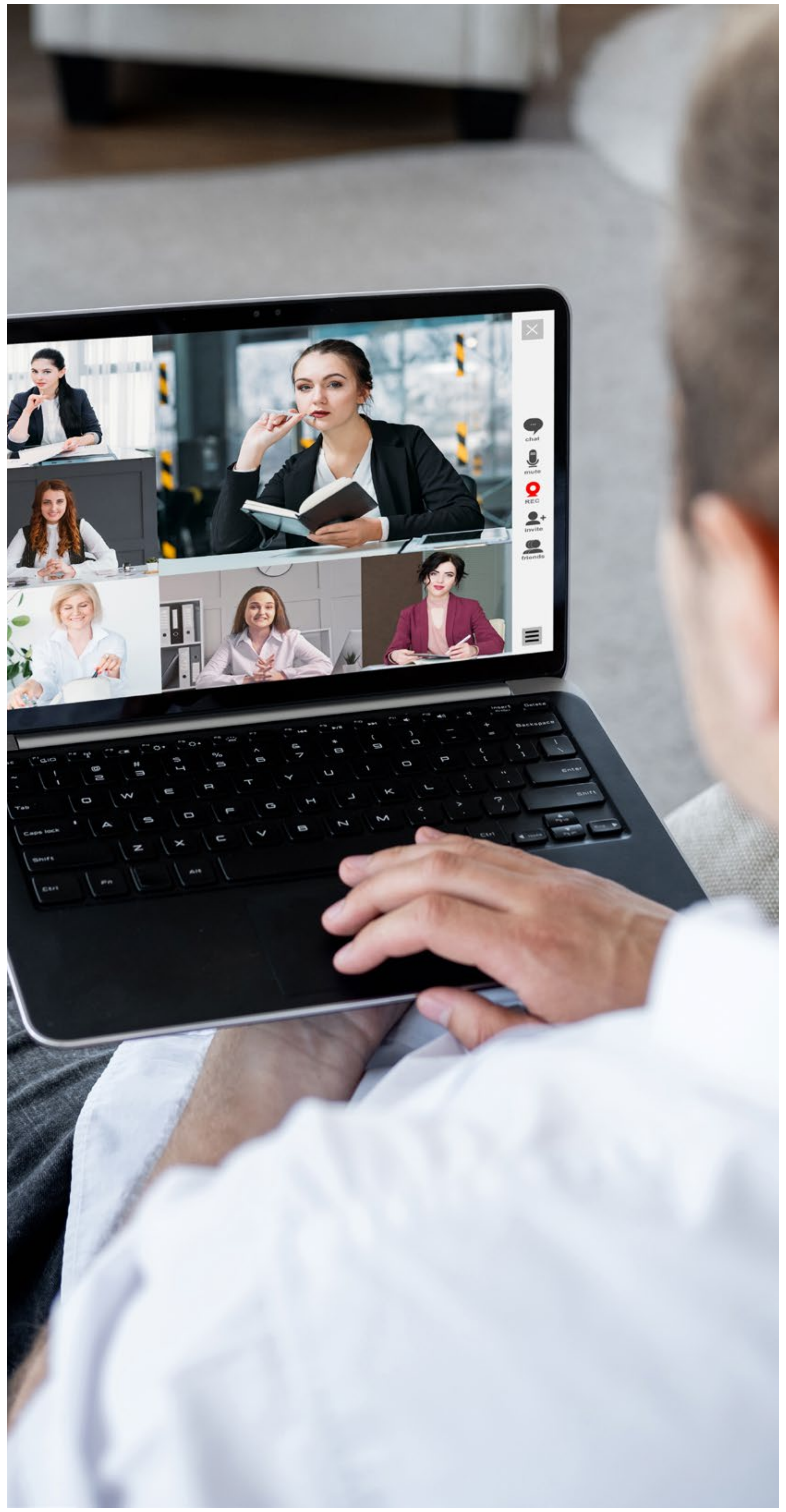
Similarly, a conventional 9-5 work pattern is not always the most suitable schedule for many people. ***The extent of opportunities to work remotely*** *and/or on flexible hours is* likely to affect employees' commitment to the company. It is an increasingly important non-financial component of job satisfaction and of companies' ability to attract and retain staff. Therefore a firm's policies in this respect, and the number of employees to which they are applicable, is useful information to report.

Example: Lloyds 2020 annual report, p.53 and p.6

On p.53, Lloyds stated that 21,000 colleagues were able to work from home that year, and that over 13,000 laptops were distributed. This came following an acknowledgement on p.6 that employees' expectations are evolving: staff surveys found that 77% of Lloyds colleagues would like to work from home at least three days a week.

Example: Rightmove 2020 annual report, p.32

Rightmove stated that all staff work from home for at least 40% of the week. It explained that this aligns with its sustainability goal of reducing unnecessary travel.



As with remote and flexible working, a ***generous parental leave*** policy is critical to many families' quality of life which inevitably impacts on the quality of their work. For many workers, this will also be a key part of their attraction or otherwise to a particular employer.

Example:
Burberry 2020/21 annual report, p.121

Burberry outlined its global parental leave policy, which "has seen an increase in the amount of paid leave globally for all employees, with all new parents receiving 18 weeks' paid leave and four weeks on reduced hours when they return to work."

REWARD

Why this matters to investors

The management of reward and incentivisation throughout the company is a question of resource use that is of continued interest to investors - beyond just that of senior executives, reporting on which usually takes up several pages in annual reports. This is because investors recognise that a fair pay structure is a vital component in ensuring employees are motivated and fulfilled.

Although most companies have a dedicated section on executive remuneration in their annual reports, we suggest that pay and benefits should be discussed more explicitly in the 'People' section of the annual report. This is i) because pay and benefits are priorities for workers, and ii) so that this information can easily be found by readers. As with other workforce-related metrics, companies should clearly articulate the link between the reward approach and broader employment model and business strategy.

Deep dive: Fair pay and the cost of living

'Fair pay' is a term that stimulates a lively debate whenever it is mentioned – what constitutes a 'fair' pay structure and arrangement?

The logic of the market on pay often contradicts many people's conceptions of fairness. Market rates will inevitably be a guiding factor on pay decisions but investors recognise that it is important to recognise the concept of fairness both in relative and absolute terms. Market rates do not necessarily reflect how hard a person works, the importance of their work to society or the need of the individual. This is why market rates might sometimes be seen as unfair or controversial. Companies and investors should be mindful of these additional factors, particularly when market rates result in wide differentials within organisations.

The COVID-19 pandemic and the increase in cost of living have both demonstrated that where workers and stakeholders feel pay is unfairly distributed, or the quantum is insufficient to help grant a reasonable standard of living, companies can suffer a myriad of detrimental impacts. This includes operational delays owing to strike action, shareholder votes against remuneration resolutions at company AGMs and/or broader reputational damage.

We would suggest that companies which sign up to an accredited local living wage scheme provide assurance to investors and other stakeholders that a company is paying its directly employed staff as well as its contractors enough to support a decent standard of living. This can strengthen worker and customer goodwill towards the business, boosting employee engagement and productivity. Living wage accreditation therefore is likely to have positive implications for the company's financial performance, set against any additional costs it may entail.

Data points and disclosures

Pay policy and quantum

Commitment to the real living wage

WDI 5.7-5.8

Example: Croda International annual report 2021, p.31

Croda demonstrated its commitment as "all employees temporary and permanent were paid a living wage at the end of 2021, according to Fair Wage Network Criteria." The payment of a global living wage was verified independently which provides credibility. Further, on p.92 Croda reported on how it will continue to rigorously assess living wage methodology and metrics in order to make any necessary adjustments. This shows a strong commitment to ensuring fair pay structures in the future.

Pension policies
Pension benefits are a key part of the employment offering – a vital tool in attracting and retaining key staff – and should therefore be included alongside details of regular pay (ideally in the 'People' section of the report).

Example: Rightmove 2021 annual report, p.40

In its 'People' section, Rightmove provided a detailed description of its pension policy, including information on employee and employer contributions, and opt-out rates.

Pay distribution

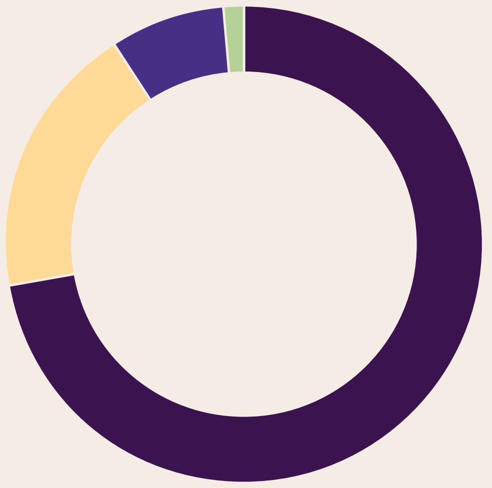
WDI 5.1 – 5.5

By seniority
With staff costs typically being amongst the single biggest expenditure items for companies, it is useful for investors to see how this cost is broken down between different levels of seniority. UK companies are now required to publish 'pay ratios' detailing the pay difference between CEOs and lower-paid UK employees. However, some companies have gone further by providing more detailed 'pay banding', which shows where expenditure on pay is concentrated, and enables a better assessment of the value generated by this expenditure.

Example: NatWest annual report 2021 p170

NatWest shows the number of earners within different pay bands across its workforce. The lowest pay band of £50,000 is very high – many employees will earn much less than this – but the banding still provides a useful insight into how the company spends its pay budget. It shows, amongst other things, that at least £200 million was spent on top earners comprising a little over 1% of the employee population.

Summary of remuneration levels for employees in 2021



- 49,171 employees earned total rumuneration up to £50,000
- 12,678 employees earned total rumuneration between £50,000 and £100,000
- 5,256 employees earned total rumuneration between £100,000 and £250,000
- 790 employees earned total rumuneration over £250,000

Fair pay policy

Example:
Morrisons annual report 2020/21 p.64

Morrisons discussed its commitment to a "fair day's pay for a fair day's work". It explained that this is reflected in pay increases for shop workers of 45% over six years between 2016 - 2021. Further, one out of five employees is registered in the sharesave scheme, which allows staff to buy discounted shares. Morrisons added that during the pandemic, it tripled the staff bonus, and chose to pay this quarterly rather than annually. This demonstrates how Morrisons has considered how fair pay will boost employees' financial security and morale, and that it recognises employees' valuable contribution as key workers during the pandemic.

Ethnicity pay gap including quartiles
Gender pay gap reporting is compulsory for companies with more than 250 employees, and most companies include the full gender pay gap report in a separate document. Whether ethnicity pay gap reporting will become a requirement remains in doubt. However, there is certainly value to investors in understanding the ethnicity pay gap as it offers an additional insight into the culture of the company and its openness to people from all backgrounds progressing their careers. As with gender pay gaps, a significant ethnicity pay gap could be indicative of a subjective and unconsciously biased approach to recruitment and promotion that overlooks members of demographics who are underrepresented at senior levels. Companies in this position are less likely to appoint the strongest possible candidates.

Example: Autotrader annual report 2021, p.49

Autotrader presented data on its hourly ethnicity pay gap. This included the mean and median ethnicity pay gaps, and a table showing the proportion of BAME versus white employees whose earnings falls within each salary quartile. The data was supplemented by narrative reporting on how the company intends to combat its ethnicity pay gap. This included discussion of its 'Inclusive Leadership' and 'Diverse Talent Accelerator' programmes (p.51).

WORKER VOICE

Why this matters to investors

Effective worker voice mechanisms in the workplace are important because they ensure that issues in the workplace can be identified, communicated to management and resolved. It means that staff are more likely to feel that they have some control or agency over their working lives, thereby strengthening their commitment to the organisation.

Explaining the available mechanisms for boards and senior management to hear the worker voice and articulating how they are used helps assure investors and other stakeholders that the leadership is well informed of what is happening on the frontline of their company, and that the workforce has mechanisms through which it can seek to resolve issues.

Effective worker voice mechanisms thereby i) lessen the risk of scandals and regulatory issues, ii) strengthen employee engagement, reducing retention risk and the additional recruitment and training costs associated with high turnover, and iii) enable innovation by giving everybody the opportunity to express their ideas[10].

Deep dive: Workforce directors on company boards

The UK Corporate Governance Code recommends three options for incorporating worker voice into corporate governance:

- non-executive directors with a specific responsibility for workforce issues
- employee panels that consult with the boards, or
- worker directors – members of the workforce who have full board membership

Analysis suggests that the non-executive (stakeholder) directors have had a varying impact with many being existing directors given the title but with no increase in the amount of work they are dedicating to the company. Employee panels have often involved a repackaging of existing employee forums. Uptake of worker (or workforce) directors has been low – and, as investors, we acknowledge that wariness on part of the investment industry has been part of this. However, investors are not a homogenous group and many believe workforce directors can bring substantial benefits to the boardroom in terms of widening the breadth of life experience and professional background to support decision making, and enhancing operational knowledge of the company.

Railpen will be publishing an 'investor expectations' document which will provide practical guidance for companies that are looking to take a meaningful approach to workforce directors. We would be happy to engage with companies considering appointing a worker director and discuss the business case for supporting such a move. Whatever mechanism firms choose to facilitate worker voice in corporate governance, reporting should detail how they ensure accountability from the board or senior management to the workforce and how engagement has informed strategy and decision-making.

[10] *For more info see High Pay Centre (2022), Worker voice in corporate governance: how to bring perspectives from the workforce into the boardroom via highpaycentre.org/wp-content/uploads/2022/10/worker-voice-full-report-FINAL.pdf*

Data points and disclosures

Employee engagement score

WDI 9.8 – 9.9

A robust, independent and historically consistent survey can provide insight into levels and changes in employee engagement, commitment and motivation. This has obvious implications for company performance.

Example: Avast 2020 annual report, p.69

Avast outlined how employee engagement was measured at the end of the year through the Your Voice survey. Its results for 2020, including an employee engagement score and a percentage for completion rates, with comparative figures for the previous year. Decreased employee engagement was explained due to a tumultuous year during the pandemic, as well as the restructuring during the last quarter of 2020. Avast has given empirical data, as well some narrative reporting surrounding employee engagement. Further data from this survey, found on p.70, included questions relating to teamwork, ownership and management

Employee voice and representation

WDI 1.1, 9.1, 9.7

Demonstrable, formal mechanisms through which employees and their representatives can raise issues and contribute to decision-making at all levels of the company (including with the board and senior management) ensure that issues on the frontline of the business are known and understood in the boardroom.

Example: Barratt Developments 2021 annual report, pp.46-7

Barratt Developments discussed three workforce engagement mechanisms it had used throughout the year: a workforce forum, surveys and internal communications. It explained the processes involved in these mechanisms. It then provided clear bullet point lists of the key interests and concerns amongst employees that were identified through engagement, the outcomes from engagement and the effect of engagement on board decisions.

Discussion of the outcomes of engagement is particularly important, as this shows that workforce engagement is having an impact on the decision-making processes and is not simply a tick-box exercise. If the workforce can see that its feedback is resulting in change, it is much more likely to have trust in the existing voice mechanisms, and will also be more motivated and committed to the company.

Trade Union partnership

WDI 2.7, 9.2-9.6

Recognised trade unions are an internationally acknowledged means of ensuring that workers can have their voices heard and their concerns addressed. Demonstrating an agreement with a union can help ensure that workers are treated fairly, issues are raised without fear of reprisal and employment standards and regulations are complied with.

Example: NatWest annual report 2020

NatWest discussed how worker voice is strengthened by employee representatives, such as trade unions and work councils (p.46). It demonstrated the importance of ongoing discussion and engagement with employee representatives (p.58). NatWest has strengthened employee voice processes through its Colleague Advisory Panel (CAP), which brings together staff members, representatives from trade unions and work councils, and junior management teams. A summary of every meeting is shared with the board and a follow-up call is held to relay the outcomes of any discussions to the members of the CAP. This process aims to provide an open and transparent medium for members to share their views with the board. The CAP met four times in 2020 and discussed matters of fair pay and the executive directors' remuneration policy (p.125).

Number of whistleblowing cases and reasons for those cases

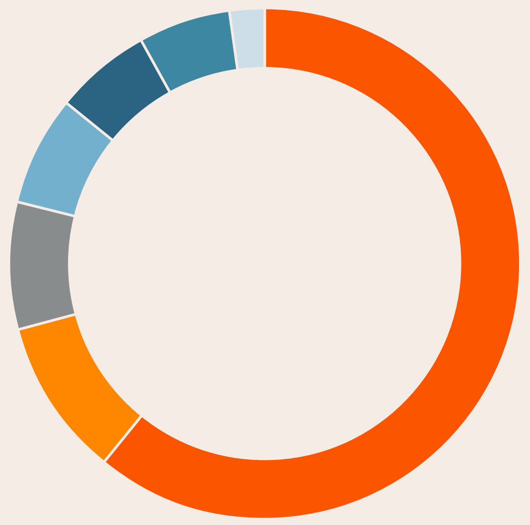
WDI 4.12-4.13, 10.4, 10.7

Disclosure of whistleblowing has prompted a significant number of questions from portfolio companies. Investors are pragmatic, recognising that not everything can go perfectly all the time in every organisation. It is preferable to be able to demonstrate the existence of robust whistleblowing policies and procedures, and to be open and transparent (where possible) about the issues they have highlighted and steps being taken to address them. This provides much greater confidence, even when problems are revealed, than to obfuscate or omit information.

Example: BHP 2021 annual report, p.38

BHP disclosed the number of whistleblowing cases and provided a pie chart showing the percentage of whistleblowing cases by type. It also reported the percentage of cases that were substantiated.

Business conduct cases by issue type FY2021



Harrassment and bullying, including sexual harrassment and sexual assault	61%
Fraud	10%
Discrimination	8%
Other	7%
Health, safety or environment breach	6%
Ask a question	6%
Retaliation for speaking up	2%

SKILLS, CAPABILITIES AND RECRUITMENT

Why this matters to investors

How a company attracts, secures and retains staff is key to its ability to execute its strategy. A good recruitment strategy is necessary to ensure that the workforce has the skills and abilities that the organisation needs, both in the present and for the future. Likewise, investment in training and progression is essential for ensuring that employees remain motivated and engaged.

As well as the direct impact that investment in people has on productivity, employers will find it easier to attract and retain the workforce that they need if they are known to invest in their staff and develop their skills and thus their earnings potential[11].

[11] *See, for instance, Dietz, D. and Zwick, T. The retention effect of training: Portability, visibility, and credibility (2020)*

Deep dive: Training and development

In an era of rapid technological change in areas like AI robotics or biotechnology, it is vitally important that companies develop and maintain a workforce with the skills to adapt to new developments.

Training and development is one area where the balance between narrative and reporting is particularly critical. It's important for companies to show quantitative data on how much they have invested in developing how many staff and the skills they have developed. If companies just provide narrative anecdotes on training programmes without detailing the breadth or depth of the investment in terms of finance or staff numbers, it is difficult for investors to have confidence that the company is securing its future skills needs.

However, just spending a certain amount of money on a certain number of people to give them all a particular qualification is of little value if the narrative does not explain how this will lead to sustained improvement in business performance.

This is an area which our previous research has shown has been historically poorly reported on. This is perhaps surprising, given the clear materiality of training and development to long-term company performance and success in achieving a vision and implementing a strategy.

Key data points and disclosures

Recruitment data

WDI 7.1, 4.7, 4.8

Data on the evolving skills and capabilities and other characteristics of new recruits, and the interest in working for the company provides insights into how the company is positioning itself to deal with long-term challenges. The demand to work at the company is also revealing of the public esteem in which it is held and perhaps also reflects the extent of good will from other key stakeholders.

Example: InterContinental Hotels Group annual report 2020, p.26

InterContinental Hotels Group stated that it significantly reduced recruitment activities as a result of the COVID-19 pandemic. However, in order to secure future talent its annual report noted that 81,000 potential candidates were registered with its candidate relationship management service, supporting its ability to increase staffing levels in the event of increased demand.

Total training costs/training costs per employee

The extent of investment in the skills and capabilities of the workforce is a vital determinant of companies' ability to sustain and build on their business success. Obviously, just spending more money on staff training does not guarantee future success, so it is particularly important that data is supported by narrative context explaining how the investment supports the long-term business strategy and why it will contribute to the desired results.

Example: Autotrader annual report 2021, p.52

Autotrader gave an annual training spend, and also broke this down to give the average cost per employee. It detailed the areas covered by the training, including leadership, customer experience, product training, coaching and skills training.

Total hours of training/hours of training per employee

WDI 7.3, 7.5

As with investment in training and skills development, the amount of time dedicated to staff training can be seen as an illustration of how seriously a company takes the challenge of renewal. Again, it is important to explain how time spent training relates to the business strategy and objectives.

Example: Autotrader annual report 2021, p.52

Autotrader also disclosed that 100% of staff received training, with the time spent broken down by mandatory (ethics/compliance – 2,555 hours) and non-mandatory training (subjects as listed in the previous example – 18,912 hours).

Number of apprenticeships/internships/work experience

The training provided for young and early career workers in particular is an interesting subset of data on time and money invested in training and development, given the potential length of careers of people entering the workforce. It reflects how companies are preparing for the challenge of not just future years but future decades.

Example: Kingfisher annual report 2020, p.23

Kingfisher outlined how it was supporting youth employment and social mobility through 2000 apprenticeships across the organisation. It stated that Screwfix is "developing its own Retail Level 3 and 4 apprenticeship programmes with 121 enrolled to date."

Investment in leadership and people management training

Good management is critical to the engagement and productivity of the wider workforce, so again the extent of investment in management training and the link to the business strategy is a critical indicator of preparation for the long term. Pay for senior managers is also a source of considerable public controversy and a significant cost for companies. A constant pipeline of potential business leaders developed through management training should ensure greater 'supply' of potential candidates for senior management roles and therefore reduced costs.

Example:
Astrazeneca annual report 2020, p.69

Astrazeneca outlined a range of differentiated leadership training programmes it has in place to support its top 150 senior leaders. It also provides a detailed discussion of its investment in diversifying senior leadership. It has a 'Women as Leaders programme', which aims to encourage more women into senior roles. It states that 800 women had completed the programme by the end of 2020, "with continuing feedback that it is providing positive career outcomes for participants". Astrazeneca also offers the 'Rising Leaders Experience' to give emerging talent the opportunity to reach senior leadership roles. This is supplemented by the 'Accelerate' programme, which gives similar opportunities to those from emerging markets.

Internal hire rate/progression

For workers, pay and career progression are likely to be among the most important things they look for in a job. Therefore, if companies can offer opportunities in terms of pay and progression, their ability to attract and retain staff and generate good will and commitment from their workforce is enhanced. The internal hire rate is also the mark of a company's self sufficiency and the strength of its training and development programmes.

Example:
Astrazeneca annual report 2020, p.69

Astrazeneca disclosed that in 2020, 60% of vacancies across the top three levels of the organisation were filled internally.

Example: Meggitt annual report 2020, p.77

Meggitt disclosed that female internal promotions have increased to 36% in 2020 (from 32% in 2019): it credits this increase to the company's work on facilitating the career development of female staff.

CONCLUSIONS AND NEXT STEPS

We hope that the guidance this document has provided will be useful for companies wishing to better understand what kind of reporting investors, and other stakeholders, find valuable.

For most of the data points and recommended disclosures in this document, we have been able to find an existing and globally replicable example amongst the FTSE 100 that exemplifies good reporting and gives investors the information they need. In a small number of instances, we have pointed out what companies could have added or changed in order to make their reporting clearer or more informative. But, for the most part, these suggestions can be straightforwardly implemented. This should serve as an encouragement to companies looking to improve their reporting practices.

There is also much that the investor community can do to support companies to produce meaningful and useful workforce reporting. Investors should ensure that they are:

- pragmatic and ready to welcome better disclosure, even if it at first it highlights significant areas for improvement
- targeted in their requests – focusing on those key metrics that are most material to a specific companies, and
- open to an honest conversation and able to share examples of good practice. On this last point, we have tried to contribute to this process by publishing this guidance. We would welcome its promotion and use by other investors, to help their investee companies improve their reporting of workforce-related issues.

The guidance is intended as a contribution to the evolving debate on workforce disclosure. We hope it will help shape the company-investor dialogue in a way that is in the interests of all stakeholders, and particularly of the workers without whom – even in today's rapidly digitising era – no company would be able to function.

REFERENCES AND FURTHER READING

The following is not intended to be an exhaustive list of existing literature and resources on workforce reporting. Instead, this aims to provide a useful selection of reading for those who prepare and use reports on workforce matters.

CIPD. **Hidden figures: the missing data from corporate reports** (2018)

CIPD, PLSA, Railpen and High Pay Centre. **How do companies report on their 'most important asset'** (2022)

CIPD. **Wellbeing at Work (Factsheet)** (2022)

Daniel Dietz, Thomas Zwick. **The retention effect of training: Portability, visibility, and credibility**[1]. The International Journal of Human Resource Management (2020)

Financial Reporting Lab. **Workforce-related corporate reporting – questions for companies** (2020)

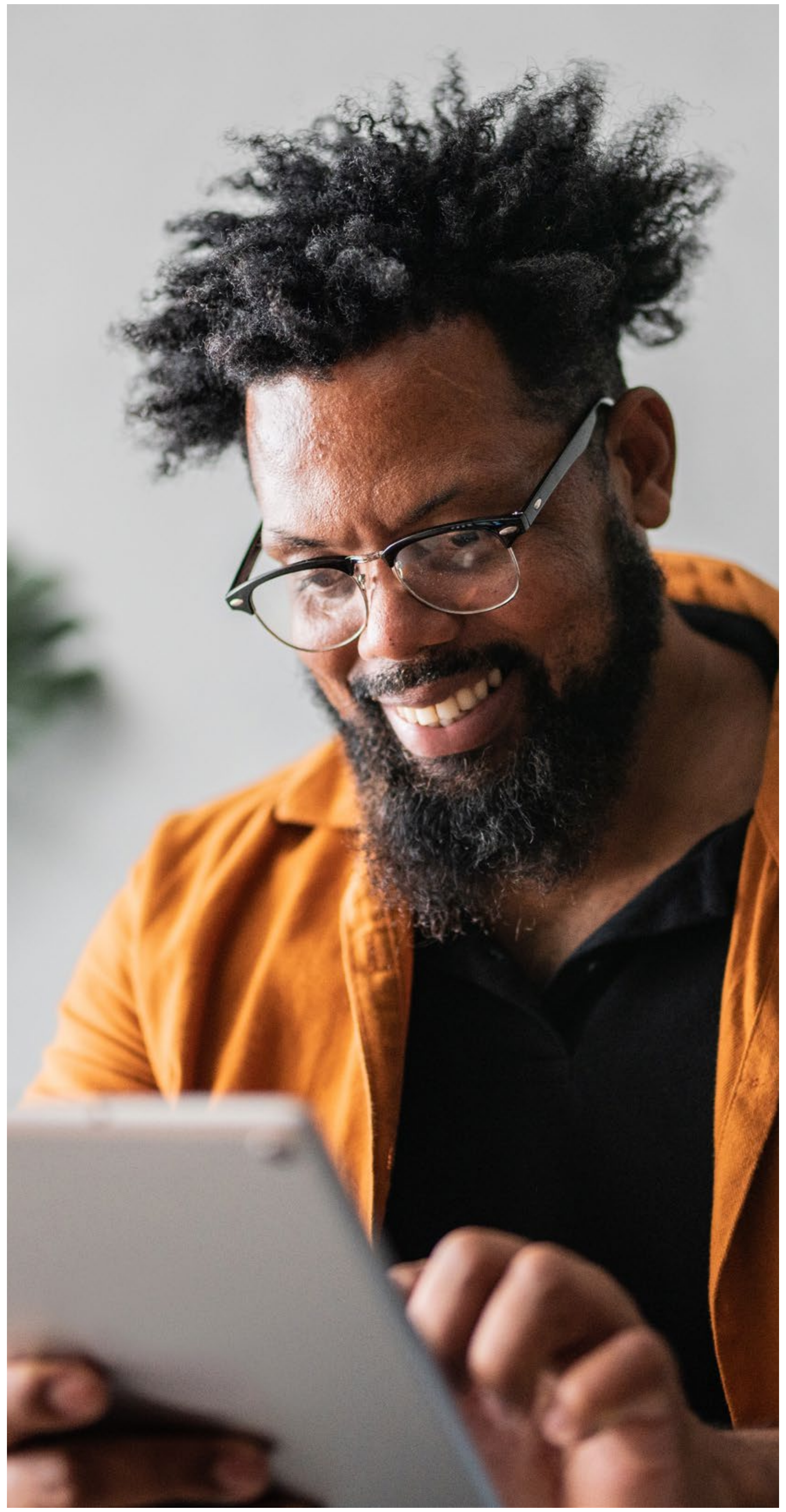
Human Capital Management Coalition (HCMC). **The Investor-First Approach to Human Capital Reporting** (2021)

High Pay Centre and abdrn Financial Fairness Trust. **Worker voice in corporate governance: how to bring perspectives from the workforce into the boardroom** (2022)

PLSA. **Hidden Talent 2: has workforce reporting improved?** (2019)

Workforce Disclosure Initiative. **Company guidance – Worker Voice and Representation** (2022)

Workforce Disclosure Initiative. **Workforce disclosure in 2021 – Trends and Insights** (2022)



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