Perspectives on Workforce Directors: Opportunities & Challenges

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Note: This blog shares reflections from a webinar co-hosted by the Predistribution Initiative (PDI) and Railpen on workforce directors. The webinar shared more information on the Workforce Directors Coalition, a now $2 trillion investor network interested in advancing investment opportunities from this approach. Detailed key takeaways may be found here.

Recent controversies at Boeing, Starbucks, Amazon, Tesla, and other companies have surfaced proposals that employees could add significant value to corporate boards of directors. Frontline (non-management) employees have more visibility into issues that can be surfacing across operations, products, and services. They can play a meaningful role in early warning systems to prevent the manifestation of risks, and they have insights into stakeholder preferences and technical matters that can contribute to more effective solutions.[1]

Investors are beginning to realize that companies' relationships with their employees can be a significant source of value and/or risk. Workforce directors can be an effective model for optimizing this balance. While already in place in many European markets, it is rare in the UK and US. This underutilized model could hold the key to unlocking new avenues for workforce engagement and corporate governance, particularly as markets work through challenges related to globalization, protectionism, outsourcing, artificial intelligence, and automation.

A recent webinar co-hosted by the manager of the UK railways pension schemes, Railpen, and the organization, the Predistribution Initiative (PDI), themed *"Perspectives on Workforce Directors – Opportunities & Challenges"*, explored the potential and hurdles of integrating workforce directors into corporate boards. The event featured notable speakers, including Caroline Escott from Railpen, Velika Talyarkhan from EOS at Federated Hermes Limited, David Foster who is a former board member at Kaiser Aluminum and Evraz North America, and Brandon Rees from the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), with moderation by Tom Powdrill on behalf of Railpen and Delilah Rothenberg from PDI.

[1] Getting Ahead of the Curve on Dynamic Materiality: How U.S. Investors Can Foster More Inclusive Capitalism.

The Case for Workforce Directors

The concept of workforce directors, where employees or representatives of employees are appointed to the board, is a common feature in many European corporate governance systems but remains rare in the UK and US. This model offers several potential benefits:

1. **Enhanced Employee Engagement:** Including workforce directors could improve communication between employees and management, leading to better alignment of workforce needs and company goals. This could be particularly beneficial in sectors like retail, healthcare, and industries with high unionization rates. Importantly, workforce directors can add value in addition to unions, as a key role of unions is to represent the collective views of the workforce. A workforce director is *not* a workforce representative (in Railpen's model); rather it is someone who has the same fiduciary duties and concerns as any other board director - but they just happen to be drawn from the wider workforce. While unions typically handle immediate issues like wages and working conditions, workforce-appointed directors seek to oversee broader strategic decisions, such as long-term financial planning, innovation, and sustainability. Their presence could provide employee perspectives in critical governance matters like mergers, digital transformation, and capital allocation, which unions may not have direct access to.

2. **Diverse Perspectives:** Workforce directors could bring valuable insights into board discussions, enhancing cognitive diversity and decision-making processes. This approach might also help manage transitions related to climate change, AI, and automation and help both the company and investors stay ahead of the curve on understanding emerging risks and opportunities related to the workforce.

3. **Improved Decision-Making:** These workforce directors can provide insights into 'on the ground' operational realities and long-term workforce considerations. This could lead to better-informed decisions, particularly in areas such as employee welfare, company culture, and sustainable business practices.

Opportunities and Considerations

The implementation of workforce directors presents potential opportunities to enhance corporate governance, and speakers on this webinar provided valuable insights on how to capitalize on these benefits:

1. **Embracing Change**: Caroline Escott highlighted Railpen's initiative to normalize workforce directors through the Workforce Directors Coalition, which aims to demonstrate their benefits and provide practical guidance for implementation. The Coalition's work focuses on helping investors and companies recognize the potential for workforce directors to create stronger, more resilient organizations. The work is accompanied by Railpen's guidance on workforce directors[2] and potential 'Four Rs' framework for workforce directors (Role, Recruitment, Retention and Reporting).
2. **Enhancing Board Diversity and Skills**: Velika Talyarkhan emphasized that workforce directors not only bring diversity to boards but could also improve decision-making. Their success, however, depends on having the right mix of skills and a solid understanding of fiduciary responsibilities. Structured training, as seen in some European markets, is essential for empowering these directors to meaningfully contribute. This presents an opportunity to create appropriate regulatory support systems in the US and UK, ensuring workforce directors are equipped to deliver strategic insights.
3. **Positive Impact on Governance**: David Foster shared his experience with Kaiser Aluminum, where union representation on the board led to significant improvements in company culture and performance. His experience emphasizes the potential of workforce directors to positively influence governance, strategic planning, and overall corporate health.
4. **Navigating Legal and Regulatory Landscapes**: Brandon Rees addressed the challenges of implementing workforce directors in the US, including the need for independent worker organizations and the complexity of navigating different legal regimes. Despite these obstacles, the long-term benefits of employee representation—such as enhanced governance and better alignment with worker interests—can outweigh the challenges. With flexible approaches, companies can tailor this model to fit varying regional legal frameworks while still prioritizing employee participation.

Workforce directors could play a pivotal role in enhancing board diversity, improving governance, and fostering more inclusive corporate cultures. By equipping these directors with the right skills and supporting their fiduciary responsibilities, companies can unlock meaningful contributions that benefit both businesses and their employees.

Measuring Success and Socializing Engagement

Success in implementing workforce directors can be measured by improvements in employee engagement, reduced turnover, and enhanced financial performance.

[2] investor-guidance-on-workforce-directors-v8.pdf

Additionally, fostering constructive conversations with companies and demonstrating investor support is crucial for advancing this model.

Internally, integrating workforce directors requires involvement from both management and the broader workforce. The approach should be tailored to fit local regulatory contexts and aligned with existing governance structures. While the model is mandatory in numerous European countries, it is voluntary in the US and UK, although there is some best practice support in the latter case. In addition, the nature of workforce directors varies. In most cases, directors are drawn from the workforce itself, but in some instances, directors are nominated by, rather than from, the workforce (the Netherlands is an unusual situation where employee directors cannot be employees of the company or trade unionists who bargain with the company).

Conclusion

The webinar highlighted that while the concept of workforce directors offers promising opportunities for enhancing workforce engagement and governance, it also faces significant challenges. By addressing these challenges and leveraging the experiences of pioneers in this field, companies can better navigate the complexities of integrating workforce directors and unlock their full potential for improving corporate performance and employee relations. Investors interested in learning more should visit the Railpen webpage which provides more information on and guidance from the Workforce Directors Coalition. The Predistribution Initiative also looks forward to offering ongoing programming to support the Coalition and will share updates and opportunities to engage regularly through newsletters and social media.