

WORKFORCE DIRECTORS COALITION STATE OF PLAY BRIEFING

Executive summary

The effective management of people is a highly material factor for investors to consider. A motivated, engaged and fulfilled workforce is desirable in its own right and a necessary factor for the generation of sustainable financial returns. As investor interest in workforce practices has increased, the governance of these issues has also risen in importance.

The appointment of workforce directors can ensure that the views of employees are directly heard and taken into account at board level, as well as boosting cognitive diversity. Despite being a common governance model in many markets to which investors have exposure (including Germany, France, the Netherlands and Sweden), it is largely absent in both the UK and the US owing to these jurisdictions' unitary board systems of corporate governance. This is a missed opportunity.

The Workforce Directors Coalition (WDC) launched in mid-2023 to encourage companies to genuinely consider whether appointing one or more workforce directors might be a suitable and effective workforce engagement mechanism. Although we do not believe this model will be the right approach for every company, we think more companies could be encouraged to go beyond what is often a knee-jerk reaction against the idea of workforce directors.

The Coalition was launched alongside practical guidance – produced at the request of some of Railpen's portfolio companies – which gave further information as to what a meaningful approach to workforce directors would look like. The guidance also highlights the benefits of workforce directors, including:

- Greater diversity of thought, including a broader socioeconomic perspective, proven to positively impact decision-making
- Enhanced productivity, capital formation, market value and resilience
- Improved sense of trust amongst the workforce which in turn can shape an inclusive culture



Given the unfamiliarity of UK and US companies with this governance model, we recognised this would be a 'slow burn' campaign. However, our experience to date has been encouraging:

- Our Assets under Advice (AuA) has grown to ca. £2 trillion
- We have had several engagements with companies that have yielded positive insights into their workforce engagement programmes
- We've helped raise the profile of the workforce director model specifically, as well as the importance of a meaningful approach to workforce engagement more broadly

In this briefing we outline:

- Our progress with company and industry engagements over the last 18 months
- Industry developments on workforce directors
- The policy and political environment in the UK and US
- Our call to companies, investors and policymakers

Our intention is to inform other investors about our experience and understanding of the current context and to encourage more institutions to support the work of the Coalition at what is a critical time for workforce treatment and voice.

The Coalition's work

The Workforce Director Coalition (WDC) was launched in 2023 with eight members – both pension funds and asset managers, from the UK and US, managing £1 trillion of assets – and a commitment to raising awareness of the workforce director model through engagement with priority companies as well as with the wider industry. We have since grown to more than £2 trillion AuA¹.

The Coalition's workforce director model



ROLE

- Consider alongside other engagement mechanisms
- Be clear that the role has the same fiduciary duties as other directors
- Consider broader impact on board composition
- Appoint on same contractual basis as other directors
- Support on management of conflicts of interest



RECRUITMENT

- Explicitly incorporate input from the workforce
- Consider involving board recruitment firms
- Consider selection vs. election (we prefer a hybrid approach)
- Undertake outreach to workforce during process
- Act early on succession planning



RETENTION

- Ensure a structured induction and training process
- Work closely with the board Chair to create an inclusive environment
- Be mindful of workforce directors' priorities when setting meetings
- Ensure that board meeting discussions do not become 'segregated'



REPORTING

- Discuss approach on a 'comply or explain' basis
- Disclose in line with best practice reporting on workforce issues
- Involve workforce directors in plans to report back to the workforce on progress made

Company engagement

In 2024, the Coalition initiated an engagement programme with a focus list of 13 UK and US companies². To date, the WDC have held meetings with six companies and asked for meetings with or submitted questions to a further five. Additionally, Railpen has raised the topic of workforce directors in engagements with two other portfolio companies, where we consider worker voice to be particularly material. The use of AGM questions³ has proven effective in enabling the Coalition to secure meetings, including with board members.

WDC engagements in 2024			
Company	Market	Sector	Meeting or AGM question
1	UK	Construction	Meeting
2	UK	Travel and tourism	Meeting
3	US	Drug stores and proprietary stores	Meeting
4	UK	Tobacco	Question and meeting
5	UK	Construction	Question and meeting
6	UK	Apparel retailers	Question and meeting
7	UK	Pharmaceuticals	Question
8	US	Prepackaged software	Question
9	US	Restaurants	Question
10	US	Variety stores	Question
11	US	Machinery	Question

The meetings we've held to date have resulted in some positive conversations about worker voice and also workforce engagement more generally. We've found that companies often have much more to say in person about their activities than is available in public reports⁴.



Potential benefits of workforce directors

Throughout our company engagements we have discussed the potential benefits of workforce directors for companies, investors and workers themselves – based on the available evidence. The table below highlights some of the key benefits, drawing upon extensive research and a longer list of benefits outlined in our 2023 investor guidance on workforce directors⁵.

Workforce director benefits

- ✔ Provide greater diversity of thought, including what is likely to be a broader socioeconomic perspective, which is proven to positively impact decision-making⁶
- ✔ Can help enhance productivity, capital formation, market value and resilience⁷
- ✔ Are a powerful signal that workers can be trusted to feed into a company's leadership and governance, which in turn can help with recruitment and retention⁸
- ✔ Can help 'bake in' a stakeholder capitalist approach to culture, given the board's important role in shaping culture⁹, helping to build trust with the workforce by enhancing information flows across the organisation
- ✔ Have the ability to tackle a lack of engagement with traditional 'shop floor' issues, such as proposed lay-offs or furloughing decisions¹⁰ and can also help support with the identification of incremental change and operational issues

As anticipated, it has not been the case that companies have responded to our engagement by simply affirming that they would or would not actively consider the appointment of one or more workforce directors. They raised a number of issues in relation to workforce directors, which we have summarised, along with our response, in the following table (below).

Issue raised	WDC response
The model might not provide additional benefits beyond existing initiatives	The role is complementary to existing mechanisms such as surveys, or interactions with relevant trade unions, which exist specifically to represent the broader workforce perspective
Workforce directors may not meet the skills and experience required for the role at board level	Workforce directors should be provided with a structured induction and training to assist them in exercising their role effectively
Individual workforce directors would not be able to represent the views and experience of all employees across the company	The role is not to 'represent' the workforce, but rather have the same duties as any other company directors – they just happen to have a broader workforce background
Investors would be concerned about board independence	<p>Workforce directors will not be considered independent and companies should consider the implications for the proportion of independents on the board.</p> <p>However, maintaining majority independent boards while also appointing workforce directors can clearly be achieved and our model allows for a regular shareholder vote on the workforce directors' election to provide investors with a voice.</p>

Whilst we understand some of the concerns that companies raise, in our experience companies that have adopted the workforce director model have been able to derive tangible benefits from it. For example, many have come to understand the model can help identify incremental improvements which together are significantly beneficial to both the business and its workforce in the long run.

Some company responses to Coalition engagement were not in our view adequate – for example, by not committing to meet with us. The WDC has recently reviewed the engagements undertaken to date and will continue engaging with our focus list. Depending on responses, in some cases, the Coalition may decide to escalate engagement, including through AGM questions, pre-declarations or public statements.

Broader awareness-raising

As well as specific company engagement, the WDC has focused on awareness-raising activities with key constituencies. A launch roundtable event was held with the Institute of Directors in May 2023 to increase awareness amongst both investors and companies. Railpen also spoke about its support for the workforce director model at a meeting of FTSE350 non-executive directors and on a webinar organised by the Investor Forum.

In 2024, in addition to the WDC company engagement programme, Railpen publicly supported the workforce director model at Mears Group, issuing a positive pre-declaration statement that it would vote in favour of the company's Chair. We have also met with a range of organisations that are similarly supportive of the model to talk through potential areas of collaboration.

To further raise the profile of workforce directors in the US, Railpen co-hosted a webinar with the US-based Predistribution Initiative (PDI)¹¹ and presented to the Human Capital Management Coalition (HCMC). Later this year, the WDC will publish a policy briefing to support with policymaker and regulator engagement on the topic.

Company and investor developments

Workforce director model – UK

Prior to the introduction of guidance on workforce engagement in the UK Corporate Governance Code from 2019 onwards, at least three PLCs had workforce directors. Of these, two were UK-listed companies who had employee representation at board level due to their original incorporation in countries where such representation is mandatory. In both cases, the directors are not subject to election by shareholders. The third company had previously chosen to adopt a model of a single workforce director, who is subject to a shareholder vote.

The introduction of the revised Code in 2019 prompted four more UK-listed companies to adopt the workforce director model, adding to the three that already had employee representation at board level. In each case, the directors are subject to a vote of shareholders. Subsequently, one company has dropped the workforce director model, another delisted from the London Stock Exchange in June 2024 and the employee director role has become non-statutory in a third case. Therefore, our assessment is that, whilst the Code has had an important role in driving change, wider adoption of the workforce director model in the UK may require further public policy activity.

The table below summarises our understanding of the current position at each company.

Company	Date adopted	Workforce directors	Volume	Appointment process	Subject to AGM vote
1	After 2019 UKCG Code	Y	1	Management selects shortlist based on applications. Workforce choose from shortlist	Y
2	After 2019 UKCG Code	Y	2 + 2 Associate Employee Directors	Management selects based on interviews with applicants	Y
3	In place since 1996	Y	1	Workforce in each operating business elects one employee director (14 in total). One is nominated to PLC board	Y
4	After 2019 UKCG Code	Y Non-statutory	1 + 1 Deputy Employee Director	Management selects based on interviews with applicants	N
5	In place since UK listing in 2017	Y	3	Works councils in Austria, Germany and Spain each nominate one director to the board	N
6	After 2019 UKCG Code	N Model dropped in 2023	2 previously	Management selected based on interviews with applicants	Y In previous model
7	Long-term model	Y Company delisted	9 (50% of supervisory board)	Co-determination model due to incorporation in Germany	N

Workforce director model – US

There has been no policy intervention in the US equivalent to the UK Corporate Governance Code update to prompt companies to formally consider the appointment of workforce directors. However, from 2019 to 2024 there have been 31 shareholder proposals filed at US companies related to worker voice at board level. Typically, these have requested that the board consider non-management employees in the pool of potential director candidates. In some cases, the proposals were re-filed and several were filed at companies that have been the subject of controversy in relation to workforce practices¹².

US companies where workforce director-related proposals have been filed			
Activision Blizzard	Boston Scientific Corporation	IDEX	The Chemours Company
Alphabet	Citigroup Inc	Microsoft	The Walt Disney Corporation
Amazon.com Inc	Dupont De Nemours	Procter & Gamble	Walmart
AT&T	Edwards Lifesciences Corporation	Square	WD-40
Automatic Data Processing	Fedex	Starbucks Corporation	
Badger Meter	Gilead Sciences	Stryker Corporation	

The fact that the proposals mentioned above have been initiated by investors and received a reasonable level of support is evidence that there is a wider pool of investor interest in workforce directors. This is further evidenced by the inclusion of specific commentary on this topic in the voting and responsible investment policies of some investors beyond those who are members of the WDC¹³.

In addition, the International Corporate Governance Network (ICGN) published guidance in December 2024 on worker voice¹⁴ – Railpen contributed to this on behalf of the WDC – which includes details on our Coalition and on the workforce director model more generally.

A further consideration in both the UK and US is how to address the issues that companies have flagged in response to our request that they consider workforce directors. As noted above, one positive action that investors can take is to publicly affirm support. We encourage investors who support the workforce director model to clarify their position on board independence and how it interacts with workforce directors (and to vote accordingly). As a practical example, in 2024 Railpen publicly supported the re-election of the chair at Mears Group in recognition of the company's commitment to having a workforce director¹⁵.

Given the extent of investor interest in this topic, Railpen and other Coalition members are working to expand the WDC to include other supportive investors. During 2024 we have welcomed more members into the Coalition, resulting in our AuA more than doubling.

The political and public policy environment

Both the UK and US held general elections in 2024, resulting in the formation of new governments in both jurisdictions and a series of commitments in relation to the interests of the workforce¹⁶. In the past, the workforce director model has elicited cross-party support, being promoted by the UK's Conservative Party, Labour Party and Liberal Democrats and been the subject of Bills introduced by US Senators Marco Rubio (Republican) and Elizabeth Warren (Democrat)¹⁷. In addition, there continues to be interest in the topic of workforce representation on boards amongst think tanks from across the political spectrum in both these countries. Examples are provided below.



"We... propose the mandatory inclusion of worker representatives at the board level in larger firms. The UK Corporate Governance Code, which applies to listed companies, introduced new measures to encourage greater engagement between boards and managers. But making board-level representation mandatory for listed firms and larger companies would represent a material change for UK firms, and it would be necessary to get the details right. Nevertheless, such arrangements are normal by European standards, and were, in fact, the policy of a Conservative Prime Minister just a few years ago."

Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Economy 2030 Inquiry.

The Resolution Foundation, June 2023¹⁸



"Workplace cooperation and worker board representation promote different and complementary types of information sharing, from worksite-specific questions of schedule and production process to strategic questions of labor costs and investment choices. The combined approach also makes practical and political sense, balancing the concerns that labor unions have about cooperative worker-management organizations with the new forum that board representation affords, and using the former to implement the latter. This approach should be attractive to policymakers across the ideological spectrum who are genuinely committed to addressing America's economic challenges and advancing worker interests."

Worker Voice and Representation.

American Compass, 2021¹⁹



"Establishing positions for workers on corporate boards can help ensure the faster and clearer flow of information from the workforce to management and the board, improving accountability and transparency. In other nations where this practice has been implemented, literature suggests companies have clearly benefited, particularly during periods of financial distress. This practice has demonstrated an ability to enhance corporate resilience, foster cooperation between workers and management, help create long-term value, and enable greater innovation."

Getting Ahead Of The Curve On Dynamic Materiality – How U.S. investors can foster more inclusive capitalism.

Omidyar Network, Oxfam and the Predistribution Initiative, March 2024²⁰

Employee directors on boards is also included as a potential area of company reporting under the EU Corporate Sustainability Reporting Directive (CSRD)²¹. Since the scope of CSRD will encompass a number of UK-listed companies (and US-listed companies in time) this could at least further improve reporting if not necessarily lead to a change in approach.

In respect of the wider political environment, it is notable that a survey by the High Pay Centre released in 2022 found that over half (55%) of respondents believed that 'The UK's biggest businesses should be required to elect someone who has been chosen by their workforce onto their boards'.²²

Although the WDC is not in favour of mandating workforce directors, taken together in combination, these developments suggest that the political and public policy environment is conducive to further activities that support and encourage the development of the workforce director model, where appropriate, for the company and its workers. As worker interests have become an increasingly salient political issue, the promotion of this model should be seen as a governance initiative that is complementary to this agenda.

The WDC encourages supportive public policy activity. In the short term, we believe that the UK Labour Government could usefully act to improve worker voice mechanisms in line with its focus on employment rights, for example by encouraging the Financial Reporting Council (FRC) to strengthen the guidance on workforce engagement in its next review of the UK Corporate Governance Code. We encourage other investors to back public policy efforts in support of workforce directors specifically, as well as effective worker voice mechanisms generally.

Calls to action for companies, investors and policymakers

The work and experience of the WDC to date demonstrates that there remains an untapped opportunity for companies and the people they employ to benefit from enhanced workforce engagement mechanisms that can enhance companies' long-term sustainable financial performance. Whilst we continue to support decisions on such mechanisms being made with regard to the specific demands of each business, our conversations with companies indicate that the workforce director model has been under-utilised and is often not given due consideration.

We believe that more investors expressing support for the model, backed by policy activity which encourages it, would counter perception that workforce directors are unpopular with investors or would create governance challenges. Similarly, policymakers could influence more companies to consider this model.

We ask companies to:

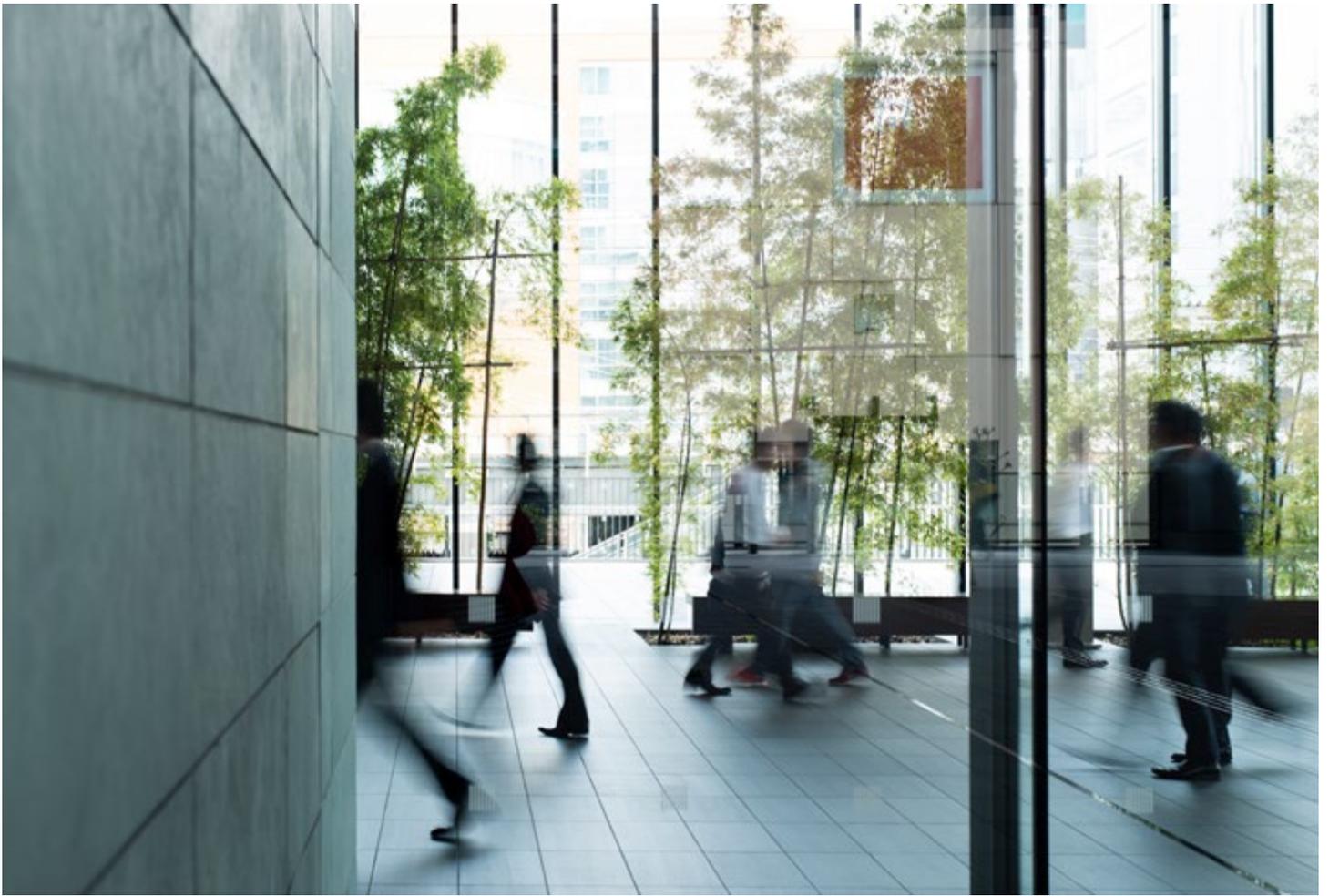
- Give genuine consideration to the potential benefits of a workforce director alongside existing employee engagement mechanisms
- Articulate in their written communications to investors their rationale for the workforce engagement mechanism used – and why they deemed other engagement mechanisms inappropriate
- Respond and proactively reach out to interested investors on this issue

We ask investors to:

- Support the work of the Coalition, either by becoming a member or sharing our guidance
- Ask relevant portfolio companies to what extent they have considered the potential benefits of the workforce director model
- Make clear through engagements and voting their perspective that the use of the workforce director model can align with independent boards and board committees
- Encourage supportive public policy and regulatory frameworks

We ask policymakers to:

- In the UK, confirm that the workforce director model aligns with the Government's objectives in relation to making work pay and improving workplace standards
- Review existing initiatives, such as the workforce engagement section of the UK Corporate Governance Code, with a view to strengthening them, where necessary
- Directly address concerns about board independence in guidance to companies and investors
- Amend company reporting regulations to require better disclosure on worker voice at board level



The Coalition's next steps

The WDC will continue its work to engage with relevant companies on worker voice generally, as well as workforce directors specifically, in 2025.

This year, it will also undertake engagement with policymakers and targeted outreach to executive and board recruitment firms, to focus on lowering the barriers to a meaningful consideration by companies of the workforce director model.

Find out more about the Coalition or the information in this document, including our calls to action for companies, investors and policymakers:

Visit the Railpen website: **[Workforce Inclusion and Voice: The Workforce Directors Coalition](#)**

Email Railpen's Sustainable Ownership team: **SO@railpen.com**

References

- ¹ Further details about WDC members can be found on Railpen's website: [Workforce inclusion and voice: The Workforce Directors Coalition](#).
- ² These companies were chosen because i) there were signs of workforce dissatisfaction, ii) they were not considered to be taking a meaningful or effective approach to workforce engagement (as gleaned from written communications) and iii) they either had peers pursuing workforce directors or there was evidence of a particularly large gap between the experience of senior management and the broader workforce.
- ³ We have taken a transparent and collaborative approach to AGM statements in the first instance. This includes emailing the question to the company at least a week in advance.
- ⁴ This aligns with the 2022 findings from Railpen, CIPD, PLSA, High Pay Centre and Board Intelligence that meaningful public reporting on workforce engagement was patchy even amongst the biggest UK companies: [How do companies report on their 'most important asset'? An analysis of workforce reporting in the FTSE 100 and recommendations for action](#).
- ⁵ [Workforce inclusion and voice: Investor guidance on workforce directors](#).
- ⁶ [Research Report on the Effectiveness of Oversight Committees: Decision-Making, Governance, Costs and Charges](#) (Tilba et al, 2016).
- ⁷ [A Better Bargain: Worker Voice and Representation](#) (American Compass, 2021).
- ⁸ [Worker voice in Corporate Governance](#) (High Pay Centre, abrdn Fairness Foundation, 2022).
- ⁹ [Governing Culture: Risk & Opportunity?](#) (Tomorrow's Company, 2016).
- ¹⁰ Johannes Huth, KKR, said that "in difficult times, having worker representatives on boards helped to implement furlough type programmes and facilitated communications with the workforce" (FT City Network panel, 2018).
- ¹¹ For a recording of this webinar, visit [Perspectives on Workforce Directors: Opportunities & Challenges - The Predistribution Initiative](#). A blog with the main takeaways from the discussion is available at [Perspectives on Workforce Directors: Opportunities & Challenges | by The Predistribution Initiative | Nov, 2024 | Medium](#).
- ¹² For example, both Alphabet and Microsoft had seen employee protests, in part due to concerns about sexist workplace culture. Both Amazon and Starbucks have been the subject of allegations of anti-union activity, although Starbucks has reached an agreement with the union.
- ¹³ This includes from Mirova Asset Management: [Voting Policy: Governance for Sustainable Development and Northern LGPS: Northern LGPS: Responsible Investment Policy](#).
- ¹⁴ [ICGN Investor Viewpoint: Workers' voice in corporate decision-making | ICGN](#).
- ¹⁵ [Pre-declaration: Mears Group – worker voice and inclusion | Railpen](#).
- ¹⁶ The UK Labour Party declared: "We will also learn from countries around the world that are looking to boost worker voice in response to economic challenges. Economists across the board also recognise the vital role that workers' voices and unions have in delivering a strong economy and rising living standards." [LABOUR'S PLAN TO MAKE WORK PAY: Delivering A New Deal for Working People](#).
- ¹⁷ Senator Warren on 11 December 2024 introduced a new Accountable Capitalism Bill which, amongst other proposals, includes mandating that at least 40% of a corporation's board of directors be chosen directly by employees. Further details can be found at: [Empowering Workers Through Accountable Capitalism | Elizabeth Warren](#).
- ¹⁸ [Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth](#).
- ¹⁹ [American Compass – A Better Bargain: Worker Voice and Representation \(Chris Griswold\)](#).
- ²⁰ [Getting Ahead of the Curve on Dynamic Materiality: How U.S. investors can foster more inclusive capitalism](#).
- ²¹ Referenced under indicator 'ESRS S1 Own Workforce (April 2022)'.
- ²² [Worker voice in corporate governance: how to bring perspectives from the workforce into the boardroom](#).