




HOW DO COMPANIES REPORT ON THEIR ‘MOST IMPORTANT ASSET’?

An analysis of workforce
reporting in the FTSE 100 and
recommendations for action



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1 Ministerial foreword

As Minister for Pensions and Financial Inclusion, I believe that a company’s workforce is central to its long-term success and, ultimately, to the investment returns that pension schemes need in order to provide a retirement income for their members.

Poor treatment of workers is simply not good for business. It also constitutes a financially material risk for investors, including pension schemes. This report raises awareness of the problems relating to workforce reporting and sets out practical solutions for investors, policy-makers and companies to adopt. It brings together perspectives from corporates, employees and investors and powerfully underlines the need for companies and investors to work together to achieve coordinated change which works for all.

The report suggests that the quality of reporting on workforce issues is low, and examples of good practice are rare. It is extremely disappointing to learn that in 2022, most companies provide minimal data on their workforces, and often fail to provide information on workforce issues that may constitute business risks, such as staff turnover, mental health and absenteeism.

In March 2021, my Department published a *Call for Evidence on Social Risks and Opportunities in Pension Schemes* and we will be responding shortly. There are strong parallels with this report’s findings. We have found that where pension schemes have stewardship or investment policies on social factors, workforce issues such as occupational health and safety and diversity and inclusion are areas on which investors are increasingly focusing their attention. The Department’s call for evidence similarly found that data around workforce issues is difficult for investors to obtain and greater transparency from companies is needed.

I support the report’s conclusions that there should be an agreed baseline workforce reporting framework. This initiative could go a long way in improving data, transparency and providing investors with a better assessment of how companies are performing on workforce issues. As well as the steps that companies must take, I encourage investors to read this report and use their influence and stewardship tools at their disposal – including engagement and voting – to probe and challenge investee companies about how they look after and engage with their workforce.



Guy Opperman MP

Minister for Pensions and Financial Inclusion



2 Executive summary

A company's workforce is central to its long-term success. The provision of secure, safe, fulfilling and fairly-paid work should therefore be a priority for companies. Clear and relevant reporting on workforce matters is in the best interests of companies; this information is valued by investors, who recognise people matters as a key element of company strategy and view poor employment practices as a business risk. Disclosure of workforce data in corporate annual reports is also essential in enabling stakeholders such as workers, trade unions, customers, policy-makers and civil society organisations to hold companies to account on their employment practices.

This report, which builds on previous [work](#),¹ analyses the quality of workforce disclosures in FTSE 100 2021 annual reports, according to a framework covering a wide range of workforce-related topics. It examines the use of metrics as well as narrative reporting and includes additional analysis of how companies have reported on their response to COVID-19. It also provides insights from the investor perspective and makes recommendations on how to establish better workforce reporting.

Key findings

The findings revealed significant variation in both quantity and quality of disclosure on the seven themes used in our framework (as listed below).

On the whole, there is more space dedicated to workforce matters in annual reports than in previous years. We are also seeing high levels of inclusion of workforce matters in key performance indicators (KPIs) and principal risks, indicating that companies are giving more strategic importance to their workforces.

A small number of workforce metrics have seen marked improvement (although starting from a low base), such as the ethnic composition of the workforce and the discussion of worker voice in relation to trade unions. There are some which look likely to see greater improvement in coming years, such as ethnicity pay gap reporting.

However, the quality of reporting is still low in many cases. While every one of our themes was discussed by the majority of companies in narrative terms, the use of data was more piecemeal. There are huge gaps in reporting, perhaps most worryingly on contingent workers, on which most companies provide virtually no information despite the fact that the pay and working conditions of contingent workers are an area of significant risk. A further notable issue is the lack of reporting on pay and benefits overall, as well as the exclusion of this information from the 'People' section of the annual report. This is a topic of great importance to employees as well as to investors and other stakeholders, and should therefore be covered thoroughly.

Workforce cost and composition

- Only 6% of companies reported on the cost of hiring contingent workers.
- A breakdown of employees by ethnicity was provided by 22% of companies, up from 10% in the previous report.

Employee relations and wellbeing

- Turnover rate was disclosed by 36% of companies, a small improvement on our 2019 report, where it was 31%.
- While accident or fatality rates were reported by 59% of companies, and were very well reported on for sectors where accidents are a key risk, reporting on COVID-19 infection rates and/or deaths was very poor, with only 13% of companies providing data on this.



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- Only 13% of annual reports discussed mental health in relation to health and safety or risk assessments, suggesting that, in most cases, mental health is still not being treated as seriously as physical health.
- The number of whistleblowing cases in the year was disclosed by 28% of companies.
- Evidence of investment in I&D was provided by 93% of companies.

Reward

- Companies provided very little information on pay and benefits in the 'People' section of the report, with only 15% of companies discussing their pension policy in this section.
- Nine companies disclosed their ethnicity pay gap within the annual report, compared with only three firms in 2019.

Voice

- Worker voice in relation to trade unions was mentioned by 36% of companies, a substantial improvement on our 2019 report, where this figure was 8%.
- The existence of a non-union mechanism for collective worker voice was mentioned in 44% of annual reports.

Skills, capabilities and recruitment

- Investment in skills or training was mentioned by 97% of companies. However, a much smaller percentage provided concrete data. Only 35% of companies disclosed hours of training and 16% disclosed the cost of training.
- The number of apprenticeships and internships was reported by 37% of companies.
- Only 11% of companies provided data on internal hire rates. This is an important figure to report as it indicates how well companies are training and developing their staff.

Response to COVID-19

- A significant 97% of companies provided narrative reporting on their response to the pandemic.
- Narrative on support provided to employees working from home, such as providing IT equipment or mental health support, was discussed by 71% of companies.
- The use of job retention schemes in the UK and/or abroad was stated by 79% of companies. Of the 25 companies (26%) that stated they had used schemes, 11 reported on the overall amount claimed, while only 7 stated how many employees were furloughed.

Overall approach to reporting

- A KPI related to the workforce was included by 80% of companies.
- A principal risk related to the workforce was included by 89%.

Conclusions and recommendations

- 1 High-quality corporate reporting should be combined with robust employee voice mechanisms and diverse boards that are focused on employment practices. Transparency is an essential part of this mix as it gives stakeholders confidence in a company's employment practices and enables them to hold companies to account.
- 2 Investors, policy-makers, regulators and civil society must work together to push companies to provide better disclosure on their workforces.
- 3 We suggest that the Financial Reporting Council (FRC) should work with other stakeholders – including representatives of investors, companies and people professionals – to establish a framework for workforce reporting that sets out a baseline of minimum standards.

- 4 Workforce reporting would be improved by enhanced oversight of the ‘comply or explain’ corporate governance regime by the Audit, Reporting and Governance Authority once it is established, through the publication of a regular, published annual audit of company reports.
- 5 The Companies Act 2006 should be amended to replace the term ‘employees’ with ‘workforce’ to require companies to report equally on workers under all contract types, rather than just their direct employees.

The report also outlines a series of targeted and practical recommendations for investors, boards, report preparers and people professionals on how these groups can bring about improved workforce reporting.

3 Introduction

The importance of good employment practices

There is an increasing acknowledgement in the corporate and investor world that poor treatment of workers constitutes a business risk. COVID-19 has caused workforce matters to shoot up corporate and investment agendas as instances of unsafe workplaces, low wages and inadequate sick pay came to the fore. In the aftermath of the pandemic, the current UK labour shortage clearly illustrates the benefits to business of improving pay and conditions. Recent research has found that 41% of workers are considering leaving their jobs in the next 12 months, within the three sectors most affected by the shortages (logistics and transport, hospitality and social care). The three most common reasons cited for this were low pay, poor mental health and long working hours.²

However, before the pandemic, corporate and investor interest in workforce matters was already on the rise. This constituted part of a wider shift in how business leaders talk about their company’s purpose, whereby the company no longer exists primarily to create value for shareholders, but also to serve the interests of a wider set of stakeholders, such as workers, communities and the environment.

The United Nations Sustainable Development Goals (SDGs),³ such as SDG 8, ‘Decent work and economic growth’ and SDG 10, ‘Reduced inequalities’, are likely to have also played a role in encouraging this, as has the 2018 revised edition of the UK Corporate Governance Code,⁴ which requires annual reports to detail how companies have regard for their employees when exercising the duties of directors, and the mechanisms they are using for workforce engagement.

The growing investor interest in workforce matters has also been highlighted by recent events such as the UK’s Department for Work and Pensions 2021 call for evidence on how pension schemes approach the ‘social’ element of environmental, social and governance (ESG).⁵ Initiatives including the Workforce Disclosure Initiative and the Human Capital Management Coalition have sought to improve transparency on workforce issues and establish comprehensive and comparable data on workforce. The formation of the International Sustainability Standards Board (ISSB) in 2021 is the latest move in a drive to increase comparability across organisations, by aiming to establish a single set of standards on climate and sustainability, which is likely to also include some aspects of workforce.

It is intuitively evident that in the long term, improvements in pay and employment practices are likely to translate into better business performance through benefits such as greater staff engagement, higher productivity, lower turnover resulting in lower recruitment and training costs, lower absenteeism, and a better public reputation. There is

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also an increasing body of evidence to demonstrate that this is indeed the case.^{6,7} These ideas are reflected in a growing consensus among the investment community that good performance in respect of ESG factors benefits the bottom line.

The value of clear and relevant reporting

Disclosure of workforce data in corporate annual reports is essential in enabling stakeholders such as workers, investors, trade unions, customers and civil society organisations to hold companies to account on their employment practices.

Clear and comprehensive reporting on workforce matters is also in companies’ best interests. From an investment perspective, aspects of employment practice such as workforce composition, remuneration, representation and training should be considered critical to a company’s long-term strategy and business model.

Reporting on the workforce, and on social issues generally, has historically been neglected compared with the environmental and governance elements of ESG, with corporate governance receiving the most detailed coverage in annual reports. However, it would follow that an increased corporate interest in workforce matters would result in a corresponding increase in workforce disclosure. This has been borne out by research: the Workforce Disclosure Initiative found that, in the aftermath of COVID-19, companies are disclosing more information on their workforces.⁸ Anecdotal evidence from investors also suggests that companies are more willing to talk about workforce issues than they were prior to COVID-19.

This report aims to analyse the quality of workforce disclosures in FTSE 100 2021 annual reports, according to a framework covering a wide range of workforce-related topics, and examines the use of metrics as well as narrative reporting. It builds on previous reports and includes additional analysis of how companies have reported on their response to COVID-19.

This report is a collaboration between the CIPD, High Pay Centre (HPC), Pensions and Lifetime Savings Association (PLSA) and Railpen. Through annual report analysis and roundtable discussions, it also provides insights from the investor perspective and makes recommendations for policy-makers, investors, boards, report preparers and people professionals on how to establish better workforce reporting and, ultimately, better employment practices.

4 How is the FTSE 100 reporting on workforce?

Where does workforce reporting sit in the annual report?

The average length of a FTSE 100 annual report is over 200 pages, of which 119 pages are the front-end narrative and the remainder is the financial ‘back-end’.⁹ It would be unrealistic to expect all stakeholders interested in employment practices to read through an entire report, although investors and their proxy advisers will take care to do so. Therefore, it is important that the reader can easily locate information on people matters.

The vast majority of annual reports have a dedicated ‘People’ section within their strategic report. CEO and Chair opening statements are also likely to mention people at a high level, particularly in relation to culture and purpose.¹⁰ Besides this, there are a few other sections where workforce matters tend to be discussed:

- **Principal risks:** Companies are required to detail principal risks and how they address these. As later discussed in this report, most companies include a risk relating to the workforce.



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- **KPIs:** Similarly, most companies include a KPI relating to the workforce.
- **Employee engagement section:** This is usually in the 'Corporate governance' report.
- **Remuneration report:** The pay ratio disclosures include information on total remuneration for the employees at the 25th, 50th and 75th quartiles of the workforce. Some companies accompany these disclosures with a wider discussion of employee pay practices and fairness.
- **Total staff costs:** This will be within the 'Accounts' section.

Ideally, all key information on the workforce would be contained in one section for ease of reference, even if this means it needs to be replicated elsewhere. At the same time, the centrality of the workforce to a company's operations also justifies the integration of people matters across different parts of an annual report. Companies should be emphasising the connection between workforce matters and overall strategy. Most importantly, workforce matters should be clearly signposted to the reader within the annual report.

Workforce cost and composition

Cost

The workforce represents one of the largest costs for a company. Companies are required to report on the total costs of compensation and benefits of their direct employees in their accounts. However, they are not required to report on the 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. As such, these roles should be included in discussions on workforce costs. However, only 6% of companies did so. This omission means that investors only have a partial picture of how companies distribute their resources.



NatWest is an example of good practice here as, in its accounts, it disclosed both the number and cost of its temporary and contract workers.

Diversity

The gender and ethnic diversity of workforces have been prominent topics in public and political debate over recent years, although high-profile reviews have set targets for boards rather than for whole workforces. The Hampton-Alexander Review set a target of 33% representation of women on FTSE 350 boards, executive committees and direct reports, to have been achieved by the end of 2020.¹¹ The Parker Review set a target for all FTSE 100 boards to have at least one director from an ethnic minority background by 2021.¹²

Disclosure of gender balance for boards, managerial staff and all employees is mandatory, although this does not necessarily have to be disclosed in the annual report. However, other diversities receive little reporting, though there were marked improvements compared with our previous (2019) [report](#), with 22% of companies providing a breakdown of employees by ethnicity. In two cases, this was confined to certain geographies (US and UK), though this may be justified as the collection of ethnicity data is prohibited or more challenging to collect in some jurisdictions. This was an improvement on the previous report where only 10% of companies disclosed data on ethnic diversity.



One example of good practice in ethnicity data disclosure is Experian, which disclosed that 20% of its Brazilian workforce identified as black and stated that this compares negatively with the Brazilian population as a whole, of whom over half identified as black.¹³

Besides ethnicity, other diversities also received low coverage. A breakdown by age was provided by 10% of companies – a slight improvement on the 7% in the previous report. The proportion of the workforce that identify as LGBTQ+ was disclosed by 5% of companies, and the proportion that identify as disabled by 4%.

A breakdown of the workforce by location – an important aspect of international companies' business models – was provided by 43% of companies.



Other notable examples of good practice were Antofagasta and International Airlines, whose annual reports disclosed the percentage of employees who are unionised or covered by collective bargaining agreements. This provides useful information for stakeholders concerned with employment practices, as unionised employees are more likely to receive fair pay and benefits and to work in safe conditions.

Annual reports are, on the whole, much better at describing their approach to boardroom diversity than workforce diversity. Despite improvements on the previous report, diversity reporting remains an area that needs substantial improvement.

Types of employment

It is rare that companies report on the types of employment contracts used.

The proportion of part-time and full-time workers was disclosed by 11% of companies – the same proportion as in the 2019 report.

Notably, there is very little information about contingent workers, mirroring the lack of data on the cost of these workers. The number of freelance workers and contractors was reported by 14% of companies (these were mostly mining companies where contractors make up a substantial part of their workforce) and only 3% of companies reported on agency worker numbers. This actually represents a reduction compared with the last report, when 6% of companies chose to disclose the number of agency workers. The overall lack of information on contingent workers may be in part a result of the fact that Section 172 of the Companies Act 2006 uses the term 'employees' rather than a broader term such as 'workforce', meaning that companies have the ability to interpret this as applying only to direct employees.

As mentioned, most FTSE 100 companies have a large number of contingent workers, and these workers – particularly agency workers – are often subject to some of the lowest pay and most insecure contracts. These practices constitute both a social issue and a source of risk for companies and investors, particularly with the recent [legal ruling](#) on contingent workforces needing to be categorised as employees.¹⁴ Low pay and insecure contracts are likely to result in high turnover, poor mental and physical health among workers and the risk of reduced operational performance and reputational damage. This is a serious omission in workforce reporting and should be a source of major concern for investors.

Employee relations and wellbeing

Turnover

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. Turnover rates were disclosed by 36% of companies, though several more mentioned collecting data on this but chose not to disclose it. This is a slight improvement on the [2019 report](#), where 31% reported their staff turnover. However, this is still a minority of companies and, given the value of this metric, investors should be pushing for more widespread disclosure on this.

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BHP, Rio Tinto and Standard Chartered all provided a breakdown of employee turnover by gender, age and region. This enables the company and investors to identify strengths or areas of risk.

Physical health and safety

Physical health and safety risks vary hugely across sectors, and some companies have a long history of reporting on safety risks in detail due to ongoing risks of fatalities or major incidents. We therefore do not expect the same type of reporting from all companies. However, in the context of the pandemic, a health and safety risk assessment should have been carried out by any company with staff entering workplaces.

Narrative on health and safety was included in 80% of annual reports, whereas 57% provided evidence of carrying out a health and safety risk assessment. Given that most companies will have had staff entering workplaces at some point, including those where staff are returning to the office after a long period of homeworking, the latter figure should be higher.

Accident or fatality rates were reported by 59% of companies. Again, whether or not this is a relevant metric depends upon the sector in question. This was broadly very well reported on for sectors where accidents are a material risk; for example, in the mining, oil and gas and utility sectors, 100% of companies reported their accident rates. Mondi provided extra detail by breaking down accident rates by employees versus contractors.

However, reporting on COVID-19 infection rates and/or deaths was very poor, with only 13% of companies providing any data on this. We know from media reports and trade unions that there have been outbreaks of COVID-19 in workplaces and that many workers have been forced to go to work in unsafe conditions.¹⁵ This lack of data means that it is impossible to ascertain to what extent companies were contributing to the transmission of the virus and, as a result, there is no corporate accountability for ill health and loss of life.



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Mental health and wellbeing

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 overwork, stress, workplace bullying or harassment. They can also arise from low pay, causing financial distress, often a consequence of a company's pay policies, which is associated with poor mental health, low performance and absenteeism.¹⁶ It therefore makes sense to include mental health in workplace risk assessments.

Furthermore, in the context of the pandemic, the deterioration of mental health has become more widespread. Reference to employee wellbeing was made by 89% of companies, with many acknowledging the negative impact of the pandemic on mental health. In a rare acknowledgement of the negative impact of work on mental health, Standard Chartered reported the high proportion of their employees who had said they were experiencing high levels of work-related stress.¹⁷

However, only 13% of annual reports discussed mental health in relation to health and safety or risk assessments, suggesting that, in the vast majority of cases, mental health is still not being treated as seriously, or reported on in as much detail, as physical health. We recognise that information relating to mental health can be sensitive and more challenging to collect. Nonetheless, mental health is a material issue for all companies, especially in the aftermath of the COVID-19 pandemic. It is therefore important that companies find ways to address any concerns regarding sensitivities to enable them to report on these issues. Examples of good practice demonstrate that this is possible.



One example of good practice is Entain, which had the health, safety and wellbeing of the workforce as a principal risk. As part of its explanation of how it mitigates this risk, it included evidence of the mental health support measures that it had in place.¹⁸



BHP reported that it is planning to take a risk-based approach to mental health next year: *'We plan to progress our efforts in FY2022 by addressing psychosocial hazards in the workplace using a risk management approach to further support better workplace mental health.'*¹⁹

A useful proxy for employee mental and physical health is absence rates. High absence rates can point to unhealthy and possibly overworked staff. Only 14% of companies reported on this.

Ethics and conduct

While most companies referenced the existence of a whistleblowing hotline, only 28% of companies disclosed the number of whistleblowing cases in that year. A breakdown of the reasons for whistleblowing was given by 17%, with better examples including the proportion of cases that were subsequently substantiated. This lack of detail is worryingly low given that whistleblowing can relate to serious breaches of conduct.

Overall, reporting on breaches of conduct is very poor. Only 3% of companies gave any information relating to instances of bullying or harassment. Our framework also included a category for the number of disciplinaries or grievances, but no companies disclosed this information.



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Investment in inclusion and diversity

In light of the widespread protests against structural racism in the summer of 2020, we expected to see an increased focus on race and ethnicity in annual reports. The 2021 annual reports included many narratives on how companies are investing in inclusion and diversity (I&D), mainly focusing on gender and race. Evidence of investment in I&D was provided by 93% – though in some cases this only covered gender, and several reports included a page or more of narrative on this.

However, it is important to contrast this large volume of narrative with the number of companies that provided data on the pay and representation of ethnic minorities in their workforces. As previously referenced, only 22% of annual reports disclosed the ethnic composition of their workforces. Also, the following section discusses that only a small minority of companies reported on their ethnicity pay gap. In the cases of the companies that are not providing this data, it is unclear how they, or indeed their shareholders and employees, will ascertain whether their investments in I&D are having a positive impact.

The conditions of work are an important aspect of a company’s I&D strategy. Providing options for flexible working is essential to creating inclusive and diverse workforces and attracting the best talent available. If a company has a flexible working policy, this is partial evidence of it taking meaningful action in this area. Details of a flexible working policy were provided in 44% of annual reports, with a small number of companies stating that they were developing a policy with a view to implementing it within the next year. In order to count as a ‘Yes’ in our framework, the policy had to be clearly stated.



Standard Chartered did this well, and also stated the reasoning behind adopting a new flexible working policy: *‘Responses to our 2020 annual survey highlighted that 74 per cent of colleagues would choose to work from home or another non-primary workplace for at least 50 per cent of the time and 77 per cent told us they feel able to choose a reasonable balance between personal and work life. Rather than simply offering flexible working (which we had in all markets before COVID-19), we intend to implement a hybrid approach, combining virtual and office-based working with greater flexibility in working patterns and locations, balancing colleague preference and business demands. A review of all roles (where and how they can be done) showed that more than 80 per cent of roles are suitable for some form of flexible working. Beginning in 2021, employees in eight markets will be able to apply for formal flexi-working arrangements, with subsequent markets expected through 2021 to mid-2022.’*²⁰

The same applies to parental leave policies: without fair and equitable parental leave policies, a company’s workforce is unlikely to be diverse and inclusive. Only 16% of companies discussed their parental leave policy.

Reward

While companies often dedicated a page or more of their annual report to discussing I&D, there was usually much less information on the pay and benefits received by workers in the ‘People’ section. Companies should include a discussion of pay across the workforce, recognising that fair pay structures are a vital component in ensuring motivated and fulfilled employees. Morrisons was one of the few stronger examples of this, including a discussion of how it has permanently improved pay and benefits for front-line staff.²¹



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Experian included a detailed discussion of pay and benefits in its remuneration report, including responses to COVID-19 such as extended carers’ leave and full sick pay for all employees regardless of tenure.²² However, this discussion would ideally be situated in the ‘People’ section, firstly, because pay and benefits are priorities for workers, and secondly, so that this information can easily be found by readers.

The discussion of employee benefits was also rare. As stated, a very small proportion of companies disclosed their parental leave policies. Similarly, only 15% disclosed their pension policies within the ‘People’ section. In some cases, pension policies were mentioned in passing in the remuneration report or accounts. However, we did not deem this to be sufficient: pension benefits are a key part of the employment offering, and should also be detailed in the ‘People’ section of the report.

Gender pay gap reporting is compulsory for companies with over 250 employees, and most companies include the full gender pay gap report in a separate document. Ethnicity pay gap reporting, however, is not yet compulsory. The UK Government’s [Commission on Race and Ethnic Disparities](#) recently recommended that those employers that choose to publish pay gaps between ethnic groups should also publish a diagnosis and action plan to address them.²³ The recommendations stopped short of suggesting that companies must publish their ethnicity pay gap. Analysis by the Office for National Statistics has shown huge gaps in earnings between white British workers and other ethnic groups in the UK, with workers of Pakistani descent earning 16% less than white British workers on average.²⁴

In our review, nine companies disclosed their ethnicity pay gap within the annual report in some form this year – an improvement on the [2019 report](#), which found that only three firms reported on this. AutoTrader, Land Securities and Segro published the mean and median ethnicity pay gaps as well as the proportion of white versus BAME employees in salary quartiles. The other six companies only disclosed the median and/or mean pay gap. National Grid and ITV had published the ethnicity pay gap in a separate report, and signposted this in their annual reports. In addition to this, BT, M&G and Croda stated that they would be publishing their ethnicity pay gap during the following year. This appears to be an area where progress is being made in reporting, albeit starting from a low base.

Living Wage accreditation was highlighted by 41% of companies. This has been on the increase since these annual reports were published, with the Living Wage Foundation stating that half of the FTSE 100 now pay the voluntary ‘real’ Living Wage.²⁵ The Living Wage is the wage rate calculated by the Living Wage Foundation and is based on what people need to meet the cost of living in the UK. It is higher than the legal National Living Wage, set by the Government. Living Wage accreditation provides assurance to investors and other stakeholders that a company is paying its directly employed staff and its contractors fairly.

The Living Wage only applies to UK workers, however. As a result, there is still a great deal of work to be done for international companies to calculate and implement Living Wage rates for other countries.



Antofagasta provided information on how it ensures that its Chilean contractors receive fair pay and employment rights: *‘Contractors and subcontractors receive the same protections as the Group’s employees under Chilean labour law and the Group requires contractors to pay their employees ethical wages at least two thirds higher than Chile’s legal minimum and to provide other basic benefits including life and health insurance.’*²⁶



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Voice

The 2018 UK Corporate Governance Code contains a requirement for companies to describe how the interests of the workforce have been considered in board decision-making, and to use at least one of the following mechanisms for workforce engagement:

- a director appointed from the workforce
- a formal workforce advisory panel
- a designated non-executive director (NED) for stakeholder engagement.

In the event of failure to implement at least one of these mechanisms, boards must explain what alternative arrangements they have in place and why they consider them effective.

Almost all companies (95%) outlined what mechanisms they used for workforce engagement. However, in many cases, these were mechanisms such as surveys and town halls,²⁷ which happen on the company's rather than the workers' terms, and which do not provide an effective collective voice for workers.

Worker voice in relation to trade unions was mentioned by 36% of companies, a substantial improvement on the [2019 report](#), where this figure was 8%. In some cases, however, very little detail was given of the relationship with trade unions; for example, Standard Chartered only makes a brief mention of this in its directors' report, stating:

*'We seek to build productive and enduring partnerships with various employee representative bodies (including unions and work councils).'*²⁸

The existence of a non-union mechanism for collective worker voice was mentioned in 44% of annual reports. This was usually an employee forum, recommended as one of the three options for employee engagement in the Corporate Governance Code. In the cases where

companies have operations in continental Europe, works councils were often mentioned. Mechanisms for collective worker voice – especially works councils – often did not appear to cover workers outside the UK and Europe, though in some cases it was unclear what the geographical reach of these mechanisms was. An employee engagement score was disclosed by 60% of companies.



The strongest examples included explanations of how workforce engagement had impacted and informed board decisions. For example, Barratt Developments provided bullet-point lists on the outcomes of engagement and the effect of engagement on board-level decisions.²⁹

Skills, capabilities and recruitment

Investment in training and progression is essential for ensuring that employees remain motivated and engaged, as well as ensuring they are equipped with the appropriate skills to excel in their role. The development of skills is also a key part of any company's strategy. As such, the area of training and development will be of great interest to investors seeking to understand a company's business model.

In a similar fashion to the coverage of I&D, 97% of companies mentioned investment in skills or training, while a much smaller percentage provided concrete data. Only 35% of companies disclosed hours of training and 16% disclosed the cost of training (either per employee or in total). The number of apprenticeships and internships was reported by 37% of companies.

Discussion, or at least a mention, of leadership training was common, with 71% of companies providing evidence of investment in this.

Only 11% of companies provided data on internal hire rates. This is an important figure to report as it indicates how well companies are training and developing their staff, and to what extent staff are given opportunities for in-work progression. These elements of an employee's experience can have a substantial impact on their engagement and motivation.



Melrose was a strong example of the use of metrics: it reported on the average training time per employee and also reported both the average and total spend on training. It detailed each of its training programmes, how they relate to its long-term skills strategy and reported on the numbers of staff who had taken part. It also disclosed the number of apprentices, discussed the challenges of recruiting women, and disclosed the proportion of female apprentices.³⁰

Regarding recruitment, a similar pattern emerged. Overall, companies provided more narrative than concrete data. Narrative around recruitment strategies or challenges was provided by 63% of companies, while 33% disclosed data relating to recruitment, such as the number of recruits overall or of a particular demographic.

Response to COVID-19

COVID-19 had, and continues to have, a hugely disruptive impact on working practices across all sectors. Narrative reporting on the response to the pandemic was provided by 97% of companies. What was emphasised in reporting on responses varied by sector, depending upon how much of their workforce continues to go into a workplace versus working from home. However, all companies will have had at least some staff working from home and, conversely, even entirely office-based companies will have had to think about safety measures in the event of staff returning to the office. Support provided to

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employees working from home, such as providing IT equipment or mental health support, was discussed by 71% of companies. More robust examples discussed how they engaged with the workforce to understand what support was needed and provided details of how they met this need.



HSBC was an example of good practice in undertaking an external assessment of its mental health support, although this would have been even better if it had detailed the outcomes of this assessment: *'We conducted an independent review of all our employee assistance programmes to see if they met best practice standards, and to identify ways to improve our counselling services.'*³¹

The use of government grants or funding during the COVID-19 crisis, such as job retention (so-called 'furlough') schemes in the UK and/or abroad, was stated by 79% of companies. Of the 25 companies (26%) that stated that they had used job retention schemes, 11 reported on the overall amount claimed, while only 7 stated how many employees were furloughed. This is disappointingly low. It is important for stakeholders to know the extent to which companies have used government support so that they can hold companies to account for how they have used their resources. Stakeholders also need to know what proportion of the workforce has been affected by furlough measures, as this may have affected remuneration, financial wellbeing and staff motivation. The use of furlough also has implications for fair pay structures and how companies are choosing to distribute cost-cutting measures, given that there have been instances where companies chose to protect the remuneration of senior executives while furloughing workers.

The continuation of flexible working practices after COVID-19 restrictions had ended was discussed in 37% of annual reports. However, this figure could be low as companies with year-ends on 31 December 2020 may not have made a decision on this at that time, given the strict lockdown restrictions that were in place.

Safety measures relating to COVID-19 and the widespread lack of reporting on cases and deaths were discussed earlier in this report. Also discussed was the fact that the vast majority of companies are not treating mental health as a workplace risk, and it is still not being given parity with physical health. This urgently needs to change, given the negative impact of the pandemic on mental health.

Overall approach to workforce reporting

The relationship between workforce matters and strategy

Companies would not function without their workforces. However, while we often see companies stating that their workforce is their greatest asset, this is not always accompanied by evidence of how the workforce relates to their wider strategy. We looked at whether annual reports provided an explicit discussion of how good employment practices will contribute to value creation in the context of that particular company's business model. Company-specific features were important here: a boilerplate statement about the importance of the workforce was not sufficient.

What constitutes a 'clear link' between workforce matters and strategy is, however, a subjective question. Given this subjectivity, we did not determine the percentage of companies that demonstrated this but, rather, we have formed an overall impression, and have identified examples of good practice.

One common example was companies talking about how a diverse workforce enables the company to understand customers and better meet their needs.



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Entain stated that:

‘As our international operations grow, we recognise the need to identify, retain, and develop talent from many backgrounds to meet our customers’ needs and stay at the forefront of innovation.’³²

Another common example was discussion of how having a workforce with particular skills is essential to the creation of value.

Glencore reported:

‘We believe that commodity and technical specialisation are key drivers of value and performance and therefore training and development is aligned to this need for specialisation.’³³

The points made by the companies here are fairly self-evident. Glencore, as a commodities and mining company, will undeniably require specialist workers, while Entain, as an international company, needs a diverse workforce to understand its customers. However, it has historically been the norm that companies do not discuss how their workforces are essential to their strategy, despite using platitudes such as ‘people are our greatest asset’. Consequently, these kinds of obvious statements still represent progress in reporting, although it is still the case that some FTSE 100 companies are providing no evidence of the connection between workforce and strategy.

It is also notable that several companies cited the UN SDGs in annual reports as a way of illustrating how workforce matters fit into their wider strategies. United Utilities, for example, states that it has identified the six SDGs that are most material to its business and where it contributes the most.³⁴

Inclusion of workforce matters into targets and risks

One way of quantitatively assessing the relative importance that companies are giving to workforce matters is to look at whether they are included in their KPIs and principal risks.

Encouragingly, the levels of inclusion of workforce matters in both of these were high. A KPI related to the workforce was included by 80% of companies, meaning that the majority of companies are measuring performance in terms of a workforce metric. The most common metrics were safety metrics (such as Total Recordable Injury Frequency Rate or Lost Time Injury Rate), gender diversity (at board level or overall) and the employee engagement score. National Grid was notable in including four workforce-related KPIs: accident rates, gender and ethnic diversity across the workforce, employee engagement and education/skills.

Although the use of workforce-related KPIs was not measured in the previous reports, this is likely to be an improvement on past years. The latest Grant Thornton Corporate Governance Review³⁵ finds that the average number of KPIs relating to people remains less than one, but has been increasing over the last decade. While companies in sectors such as mining and manufacturing have been using safety metrics for many years, the use of other people metrics to measure performance is a relatively recent development.

Companies are required to report on principal risks to their business and 89% included a principal risk related to the workforce. The most common risks were safety and talent retention.



Targets and progress

Targets or narratives on whether progress has or has not been made provide helpful context for investors. This can include metrics or narratives on how current performance compares with past performance, as well as future targets. These should be honest, fair and balanced, including targets that have not been met.

As this category is also subjective, we took a qualitative approach to it. Most companies provided some indication of whether progress had been made on targets, even if this was simply disclosing the outcomes of a particular metric over recent years. A very common area for indicating progress was on the gender diversity of boards, where many companies have increased female representation over recent years. Paradoxically, the few examples of companies reporting where they had failed to meet targets were encouraging in that they demonstrated that initial targets were meaningful and stretching, and that progress against them had not been manipulated. Standard Chartered provides a good section listing several current targets for better future working practices, and indicates whether these have been achieved, not achieved, or are on track.³⁶

5 Insights

Companies are dedicating more space to their workforces in their annual reports

This is generally true and likely to be attributable to several factors:

- Changes to the Corporate Governance Code in 2018 require companies to report on the mechanisms they are using for employee engagement and how they have fulfilled duties in respect of Section 172 of the Companies Act 2006.
- COVID-19 has drawn attention to corporate employment practices, especially in the areas of physical health and safety, mental health and sick pay entitlements.
- Workforce-related matters have been climbing up the corporate agenda for several years, perhaps driven by factors such as the [SDGs](#) and the [Business Roundtable](#).

Narrative, rather than data, is currently the dominant reporting approach

Both narrative and data are necessary for stakeholders to understand a company's employment practices. Data may give a partial or misleading picture without explaining its context. However, without data, observers can gauge little about the workforce, making year-on-year comparisons much more difficult. At present, narrative very much dominates: every one of our themes was discussed by the majority of companies in narrative terms, whereas the use of data was more piecemeal.

As noted, there was often particularly lengthy narrative coverage of what companies are doing on I&D, but this was juxtaposed with a lack of information on the pay and conditions of workers. Pay and conditions make up an important part of I&D strategies; for example, recruiting a higher percentage of employees from minority ethnic groups is not a wholly positive story if they are only being recruited into the lowest-paying jobs and are not paid enough to cover the cost of living.

At the same time, there needs to be a balance between narrative and data. While quantitative data is important, qualitative data can be useful to illustrate the lived experiences of workers and help put the data in context. Investors and other stakeholders want companies to tell a story. This should involve:



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- explaining what metrics they are using
- why these metrics are material to them
- what steps they have taken in order to improve
- the results of these steps and what they have learned from this
- how this all ties back into company strategy.

Reporting needs to include all of the workforce, rather than just direct employees

Workforce disclosure remains minimal and sometimes non-existent for a substantial proportion of companies and workers, such as:

- non-listed or foreign-owned companies
- indirectly employed workers or contingent workforces
- operations outside the UK and Europe.

Greater corporate transparency does not necessarily guarantee good employment practice

How can we really be sure that the narrative and data provided in annual reports are accurate, or give the whole picture of what is happening at a company?

The vast majority of annual reports we reviewed were not self-critical, though there were exceptions. Annual reports tend to err on the side of presenting the company in a positive light, so it may not be fair to expect reports to be as self-critical as we would wish them to be.

The extent to which companies should be regulated, and how, is the subject of ongoing debate. Many, including several that attended our PLSA roundtable discussions, argue that policing employment practices is a matter for governments rather than investors, given that investors are unlikely to bring about the scale or speed of change that is needed. However, it is challenging for government to create a universally applicable framework that assesses employment practices based solely on quantitative disclosure requirements. This is even more challenging in the case of qualitative disclosures.

So how can we avoid overburdening companies with reporting requirements, while ensuring that they provide good, engaging and fairly-paid work? Part of the answer lies in robust employee voice mechanisms that enable internal scrutiny of pay and employment practices. Trade unions are a particularly effective way of providing this kind of scrutiny as they are designed to listen to and communicate workers’ perspectives from all parts of the organisation. They can therefore provide the business with information on the workforce that they would be unlikely to have access to through other workforce engagement structures.

Another part of the answer is through governance and stewardship rules guaranteeing that boards and investors are focused on employment outcomes. The diversification of boards to include stakeholder representatives is much needed, as the majority of boards are dominated by directors with financial backgrounds. Appointing worker directors would give workers a greater voice at board level and provide a mechanism for scrutiny of board activities from the workforce’s perspective. This would also go a long way in helping companies to connect workforce matters with their overall strategy. We note the intention of Railpen (see [page 19](#)) and those of other investors to work with companies to highlight the investor perspective and to consider the circumstances under which appointing worker directors could be most meaningful and effective.

A further way of assuring stakeholders of good employment practices is by external accreditation or independent assessment, such as the Living Wage accreditation, the Pension Quality Mark or ESG audits.



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Insights from investors: Railpen's findings from company engagement

As well as helping to provide a broader investment practitioner perspective on the framework and the report, Railpen's role during this phase of the research was to be the 'investor boots on the ground'. It has been engaging with its portfolio companies directly for several years on how they treat their workforce and the quality of the information they provide. However, it was keen to understand the extent to which COVID-19 – and the spotlight it shone on corporate attitudes towards their people – has changed how companies consider and communicate their approach to workforce issues.

The initial framework was used to shape discussions with ten of Railpen's largest portfolio companies where workforce issues were most material, and responses to a short survey on the framework were invited from other holdings. Railpen is a global investor and conversations took place with executives from companies based in North America, China, Europe and some UK firms. Although it recognises that regulatory and cultural variations across jurisdictions and sectors will be the starting point for how a company reports on workforce issues, as an investor it believes that there are aspects of workforce reporting that have cross-jurisdictional, cross-sectoral relevance. These include turnover, training, the rate of internal hires and employee engagement.

It was keen to emphasise to company representatives that the quality and nature of the metrics reported is key to Railpen's understanding of a company's approach to its workforce.

Findings

By and large, the framework was considered sensible and in line with many companies' thinking on useful workforce metrics. Key additional insights are as follows:

1 There is demonstrably greater interest in discussing workforce issues than before the pandemic

Several companies said that feedback from investors on 'what good looks like' was vital in providing ammunition and proof points that they could take back to senior management (particularly the CFO and the CPO or HR officer) to effect change in the approach to collecting workforce data and insight.

2 Companies want investors to be speaking with one voice on workforce

This will not come as a shock to any responsible investment practitioner involved in dialogue with companies. In the same way that investors are required to produce ever-increasing levels of disclosure on their activities, companies are subject to growing volumes of information requests from investors. This demand emphasises the importance of collaboration from investors through initiatives such as the Workforce Disclosure Initiative, of which Railpen was one of the first supporters.

3 Investors need to acknowledge that certain information can be sensitive

This includes information such as sexual orientation, ethnicity and absences related to mental health. Some jurisdictions also restrict data collection and reporting in these areas. Some of the companies spoken with discussed how they sought to collect such information voluntarily and the steps they had taken to reassure employees on how the information would be used.



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4 There is a nervousness around how investors might receive some disclosures

This pertained particularly to more granular detail around statistics on employee turnover and whistleblowing cases. Discussions revolved around how to achieve a balance between transparency to investors and putting investors off. Some company executives noted a potential disadvantage to being a first mover in this space. This is a fair challenge to the investor community to recognise honest and thoughtful disclosure in the spirit in which it is offered, while also being unafraid to challenge where progress is not being achieved.

5 Companies are more open to considering formal employee representation on boards

In part triggered by an AGM season that saw some high-profile shareholder resolutions on this issue, several companies expressed their openness to considering formal employee representation on boards, but also uncertainty as to how investors might respond, as well as how it would work in practice.

Railpen sees the importance and value of representation of the member perspective on its trustee board. Analogously, there can be merits from formal representation of the worker voice at board level, where such an approach is both tailored to the specifics of the company and undertaken in a considered way that aligns with a broader appreciation and demonstrable inclusion of the worker voice in the organisation's culture.

Railpen believes that the investor community needs to continue to engage with and support companies on producing meaningful and impactful workforce reporting, building a fruitful dialogue that leads to better outcomes for investors, companies and for the workers themselves.

Insights from investors: Pensions and Lifetime Savings Association (PLSA) members' roundtable

The PLSA hosted a roundtable for its members to discuss workforce reporting and how this is approached by investors, boards and companies. Members were asked to discuss:

- what workforce information they are looking to capture
- the current state of workforce reporting
- how workforce reporting could be made better.

Findings

1 A balance needs to be struck between what investors want from reporting, and what companies want to report

Most companies are reluctant to publicly report on turnover and the underlying rationale as they fear that it might put off investors. Instead, they would rather discuss this behind closed doors as part of direct engagement. However, investors tend to see turnover as necessary to business objectives.



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2 Small pension funds favour a limited number of issues and metrics

The majority of UK pension funds are small operations, do not have sufficient personnel or resources to directly engage with companies, and will use intermediaries to support or act on their behalf. This means that if some metrics are only disclosed by a very small percentage of companies, they are unable to directly know what the majority of companies are doing. They would, therefore, rather have a small number of workforce metrics that are widely disclosed on.

3 Trustees should select a small number of themes to focus their resources on

For the reasons outlined above, several trustees stated that they could only focus impactfully on one or two themes per year. In this respect, it is important for the trustee community to focus on which outcomes they wish to shape; for example, some members suggested that a principles-based approach could be a good way to find consensus on which metrics need to be disclosed. These principles could then be turned into a list of key votes. It was noted that this idea is not dissimilar to the forward-looking engagement notices on climate, in that investors looking at workforce issues can learn from prior work on climate change.

4 Companies want greater consensus from trustees on workforce issues

Companies often do not know which metrics or areas to focus on because, as one member said, 'there are so many voices coming at them'. Members commented that it would be helpful if the investor community could create a statement about what kind of workforce reporting they want to see.

A key takeaway from these insights is that both pension trustees and companies are broadly in favour of finding consensus on the themes and metrics on which they should focus their resources.

6 Conclusions and recommendations

As with our collective work in this area and previous reports, there remains considerable variation in the quality of workforce-related disclosure among FTSE 100 annual reports.

Key findings

Notable improvements

- Largely, there is more space dedicated to workforce matters in annual reports than in previous years.
- There are high levels of inclusion of workforce matters in KPIs and principal risks, indicating that companies are giving more strategic importance to their workforces.
- A small number of workforce metrics have seen marked improvement (although starting from a low base), such as the ethnic composition of the workforce and the discussion of worker voice in relation to trade unions. Some look likely to see greater improvement in coming years, such as ethnicity pay gap reporting.

These are all welcome developments, and the increased focus on workforce reporting is likely to contribute to better employment practices. Greater awareness of workforce matters, along with the collection of more workforce data, should hopefully result in more time being dedicated to this at board level.



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Concerns

- While disclosure has improved somewhat since our previous reports, the quality of reporting is still low in many cases, and examples of good practice are rare.
- There are huge gaps in reporting, perhaps most worryingly on contingent workers. Most companies provide virtually no information, despite this being a significant risk in areas such as staff turnover, retention, mental health and productivity.
- There is a further lack of reporting on pay and benefits overall, as well as the exclusion of this information from the ‘People’ section of the annual report. This is a topic of great importance to employees, investors and other stakeholders, and should therefore be covered thoroughly.
- Improvements in disclosure have not been sufficient to align corporate culture with the interests of workers and wider society. This is evident as we continue to see instances of poor employment practice across the UK, including some of the largest publicly listed firms. Over the last decade, there has been an overall decline in employer investment in workplace training, numerous corporate scandals relating to sexual harassment and discrimination, and plateauing workplace productivity.

Benefits of improved workforce reporting

- It will provide greater insight into how organisations manage and develop their people, and the steps they take to ensure they have inclusive and productive working cultures. It can also signal whether organisations regard their workforce as a key value driver to be invested in or simply as a cost to be managed down. These insights are vital as the UK Government seeks to help the country transition to a high-skill, high-wage economy.
- Workforce reporting can provide crucial information on how effectively organisations are achieving environmental sustainability and moving towards net zero. Information on workforce planning and staff training can demonstrate how firms identify and address skills shortages and gaps critical to effective investment in, and utilisation of, green technologies, for example.

To give stakeholders confidence in a company’s employment practices, high-quality corporate reporting needs to be combined with robust employee voice mechanisms and diverse boards that are focused on employment practices. Nonetheless, transparency is an essential part of this mix as it enables stakeholders to hold companies to account. Investors, policy-makers, regulators and civil society must work together to push companies to provide better disclosure on their workforces.

How to establish better workforce reporting

Develop an agreed baseline workforce reporting framework

Although examples of best practice workforce reporting approaches exist (for example, the Workforce Disclosure Initiative,³⁷ or ISO standard 30414),³⁸ these do not outline a baseline reporting standard or provide guidance on the narrative and key essential areas of data that should be required in any company report.

This type of framework could also help underpin the workforce reporting element of new global sustainability-related disclosure standards to be developed by the ISSB. Given the global interest in establishing disclosure standards, it is vital that workforce matters are given sufficient focus.

Improve the quality of workforce reporting through the ‘comply or explain’ corporate governance regime by the Audit, Reporting and Governance Authority once it is established

A regular, published annual audit of company reports could help inform targeted engagement by the regulator to improve practice among firms that have failed to meet their obligations to effectively report on material workforce matters or provide an adequate explanation of why they have not reported.



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The Companies Act 2006 should be amended to replace the term 'employees' with 'workforce'

This would require companies to report equally on workers under all contract types, rather than just their direct employees. An employer's contingent workforce represents a significant cost and a potential risk to the business and should always be referenced in an organisation's annual report.

Policy-makers should introduce mandatory ethnicity pay reporting

This would build on the success of gender pay reporting and help tackle racial inequality and discrimination at work. Requiring employers to measure and report on ethnicity pay gaps can act as a catalyst for discussion and action.

More broadly, improving the quality of workforce reporting can provide greater transparency over the value that investing in the workforce can bring and ensure people issues receive greater attention when investment decisions are made, both inside firms and among the investment community.

Recommendations for policy-makers

- The FRC should work with other stakeholders – including representatives of investors, companies and people professionals – to establish a framework for workforce reporting. This should outline the narrative and key areas of data that require reporting. This would establish a baseline of minimum reporting standards for employee and workforce matters and should underpin the workforce reporting element of new global sustainability-related disclosure standards to be developed by the ISSB. The framework we have used for this analysis and report could form the basis of this baseline of minimum reporting standards, but should be tested and developed further with wider stakeholders.
- Section 172 of the Companies Act 2006 uses the term 'employees'. This should be replaced with the term 'workforce', to require companies to report equally on workers under all types of contract, rather than just their direct employees.
- Ethnicity pay gap reporting should be mandated for all companies with over 250 employees.

Recommendations for investors

- The lessons of the COVID-19 pandemic should be used as an opportunity to explore/probe how companies are looking after their people.
- Examples of good practice should be shared with companies, many of whom seek guidance.
- Be targeted: focus on particular metrics which are important for individual companies.
- Focus also on metrics which are most material to your investment beliefs. If you are using an intermediary, ensure they understand and act on your expectations.
- Talk to companies about appointing worker directors to the board and/or investigate how companies are taking a meaningful approach to employee engagement.
- Be pragmatic: be ready to welcome better disclosure, even if at first it paints a negative picture of a company, and allow time for meaningful progress to be made. However, do not hesitate to escalate concerns if progress is too slow.
- Sign up to the Workforce Disclosure Initiative, an investor coalition that aims to improve corporate transparency and accountability on workforce issues.

Recommendations for boards

- Ensure board compositions include people who are, by background and/or role, focused on employees, people and/or other stakeholders.
- The board-level mechanism for workforce engagement must be designed to give voice to employees, and not simply be a one-way form of communication. Board decisions should be informed by feedback gathered from the workforce, and communicated to the whole workforce.



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- If the board has a designated NED for workforce engagement, they should be open to meeting with investors to discuss workforce matters.
- Review the approach to workforce engagement mechanisms, and be prepared to change to a different approach (such as worker directors or a designated NED) if needed.

Recommendations for report preparers

- Make people matters in the annual report a dedicated section that includes or cross-references all aspects of people matters. Companies should also ensure that they integrate people matters into the annual report as a whole, to reflect the importance of the workforce to their strategy.
- Use a balance of narrative, data and positive stories with areas for development and focus.

Recommendations for people professionals

- Organisations need to invest in HR information systems that allow them to collect the right information, in the right way, at the right time, and in the right format, to facilitate effective disclosure.
- People professionals may need to invest in data analytical training and development to ensure they can interpret and act on what the data shows.
- Ensure workforce engagement mechanisms are designed to give voice to employees, rather than being a one-way form of communication. Actions should be taken as a result of workforce input.
- HR leaders and teams should facilitate a discussion with both internal and external stakeholders about the information that they would find useful, either for decision-making and/or reporting purposes.

7 Methodology

The HPC analysed the most recent reports of the FTSE 100 as of 28 October 2021. The companies studied were those included in the FTSE 100 as constituted in Q4 2021. The analysis excludes Scottish Mortgage Investment Trust and Pershing Square Holdings, as neither company has a workforce due to their status as investment trusts.

Each annual report was compared against an agreed framework co-designed by the CIPD and HPC, with input from the PLSA and Railpen. The framework includes seven themes:

- cost and composition
- employee relations and wellbeing
- reward
- voice
- skills, capabilities and recruitment
- response to COVID-19
- the overall approach to workforce reporting.

Within each theme there are multiple categories. The majority of these categories are coded on a binary (Yes/No) basis. This applies to the disclosure of both metrics and narrative. In the case of the final theme, one of the categories requires a subjective assessment: whether the annual report demonstrates a clear link between the workforce and company strategy. In this case, we have not provided a percentage of companies that do this, given the subjective nature of the assessment, but instead we have described the overall impression we gained of reporting approaches and have highlighted examples of good practice.



8 Appendix: Workforce reporting framework

Our framework covers four key areas:

- workforce composition
- employee relations and wellbeing
- reward and recognition
- skills and capabilities.

We see these four areas collectively as material to all organisations in terms of their culture, their role in value creation and in identifying risks associated with people and the workforce. The majority of these are data-led (for example, reporting would be a single figure or metric), although most would require a good narrative explanation that relates the way they manage and engage their workforce to their wider strategy and business model.

We would expect companies to underpin narrative with consistent data, and reflect on changes to these numbers over time. For example, we do not advocate there is a universally accepted 'good' number for employee engagement or absence rates. However, we would expect companies to understand and communicate what number was appropriate for their circumstances, and to reflect that in the narrative, how the number has changed over time and potential explanations for that change.

Some of these factors will also be more appropriate for some companies than others. This is likely to depend on factors such as the size of the workforce, the size of the organisation and its jurisdiction (both divisional and regional).

Table 1

1 Workforce composition

- Headcount
- Full-time/part-time
- Job level
- Demographics and diversity (including proportion of age, gender, ethnicity, disability and LGBTQ+, geographical location)
- Contingent labour
 - Headcount
 - Overall cost
- Recruitment numbers (including applications per role) and recruitment costs
- Overall cost of workforce

2 Employee relations and wellbeing

- Employee engagement
- Absence rates and reasons
- Turnover or churn rates and reasons for leaving
- Health and safety
 - Accident rates/fatalities (including mental and physical)
 - Absence due to illness (including mental and physical illness)
 - Evidence of conducting health and safety risk assessments (including mental health/stress)



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- Number of disciplinaries or grievances, and reasons
- Instances of bullying or harassment
- Speak-up rates
- Employee voice and representation
 - Trade union recognition, relations, staff council or forums
 - Board engagement, for example, employee director, designated NED, workforce advisory panel
- Evidence of investment in employee wellbeing (including physical, mental and financial wellbeing)
- Investment in I&D/EDI
- Maternity/paternity leave policies and pay
- Flexible working and/or homeworking policies
 - Number of employees working flexibly

3 Reward and recognition

- Payment levels/quartiles
- Living Wage employer (Yes/No)
- Other relevant pay policies, for example, evidence of profit-share practices, and/or employee share plans
- CEO pay ratio/quartiles
- Gender pay reporting requirements (including quartiles, ratio, for example)
- Ethnicity pay gap and quartiles
- Directors' remuneration policy
- Pension policies

4 Skills and capabilities

- Total training investment/budget per employee
- Hours of training per employee
- Number of apprenticeships, traineeships, internships and work experience placements
- Engagement with local further education/higher education organisations and other outreach activities
- Staff volunteering programmes
- Investment in leadership/people management development
- Internal hire rate/progression
- Board/director skills, composition, competencies and diversity

We would also expect companies to report on how they have responded to COVID-19, which could include the following:

5 Response to COVID-19

- Response to COVID-19 and changes to working practices
- Support provided to employees working from home (for example, investment in IT, wellbeing)
- Use of the Government Job Retention Scheme (JRS) (including, for example, the number of people furloughed and the overall furlough amount claimed)
- Continuation of flexible/homeworking post-COVID-19

9 Endnotes

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How do companies report on their 'most important asset'?

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