Workplace culture and pension fund investment

Caroline Escott reveals how the PLSA is bringing together FTSE 100 firms and pension schemes to discuss why a company's workplace culture is an important factor when making investment decisions

How UK companies treat, motivate and engage their workforces has been the subject of intense government and public scrutiny in recent years.

Institutional investors believe that a company's workforce is critical to its long-term success – businesses that look after their people really do outperform. In turn, companies that put their people first tend to attract investment from the most attractive, patient and long-term investors.

At the same time poor practices can have a serious detrimental effect on reputations.

Excessive executive pensions and bonuses; pale, male and stale boardrooms; poor data protection policies; bullying – these are just some of the workforce issues that have found their way into the newspapers.

One driver of these issues coming to light is the actions of pension funds and other large investors in exercising their displeasure at shareholder meetings. With over £2 trillion in assets under management, pension scheme investors wield significant influence in encouraging corporate best practice and success.

However, while topics like executive pay have received several pages of attention in companies' annual reports, issues affecting the rest of an organisation's workforce remain under-explored.

The PLSA has been at the forefront of encouraging large investors to engage on these issues. In 2015, we asked 'where is the workforce in corporate reporting?' This started our work to identify a framework and metrics for investors to use when examining company disclosures to assess the motivation, stability, composition and skills of a company's employees. The latest *Hidden Talent* report, released in April, assessed how well FTSE 100 companies report on workforce issues in their annual reports, examining new metrics on the gender and ethnicity pay gaps and supply chain ethics to reflect the shifting debates and regulations.

It found that FTSE 100 companies still have some way to go to achieve best practice on reporting employment practices, despite increased public scrutiny and regulatory focus on disclosure.

Across the themes of workforce composition, stability, skills and capabilities, and engagement, there were some instances where workforce reporting by FTSE 100 firms had improved. These included more reporting of aggregated turnover rate (31 per cent as of December 2018 versus 18 per cent in June 2017), proportion of full- and part-time staff (11 per cent versus 4 per cent) and evidence of motivation and commitment towards corporate goals, such as employee awards and schemes designed to foster teamwork (54 per cent versus 30 per cent).

However, there remains significant room for improvement in reporting on other key workforce issues. Meaningful reporting on issues achieving prominence in recent policy debates such as mental health (where just 3 per cent of companies disclose mental health sickness rates), the ethnicity pay gap (3 per cent disclosure) or age diversity (7 per cent disclosure) remains rare.

Now we are taking the conversation directly to FTSE 100 companies.

In the coming months, the PLSA will hold a series of meetings with UK business leaders to discuss their reporting of employment models and working practices. All FTSE 100 companies have been invited to participate. Joining them will be representatives of the pension schemes within the PLSA membership.

Company executives will be given the opportunity to tell us how their workforce fits into their overall strategy. And pension schemes will be able to give their view on what they expect from their investee companies.

It is the PLSA's aim that these discussions will help UK companies to lead global best practice in relation to workforce disclosure and governance and improve outcomes for staff.

With new disclosure regulations on the horizon, including new rules to require trust-based pension schemes to formally develop an ESG policy and the updated UK Corporate Governance Code, the PLSA hopes that engaging with the UK's largest listed companies will encourage them to improve their reporting practices.

It is only through working together on this issue that investors and companies can both deliver significant improvements to millions of working lives as well as delivering better returns to investors – and pension scheme members – over the long term.

Written by PLSA policy lead for investment and stewardship Caroline Escott