



# **HIDDEN TALENT: WHAT DO COMPANIES' ANNUAL REPORTS TELL US ABOUT THEIR WORKERS?**

**AN ANALYSIS OF THE FTSE 100**

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The Pensions and Lifetime Savings Association is the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes with over 20 million members and £1tn in assets, and over 400 supporting businesses. They make us the leading voice for pensions and lifetime savings in Westminster, Whitehall and Brussels. Our purpose is simple: to help everyone achieve a better income in retirement.

This paper was co-authored by Professor Steven Young and Sam Rawsthorne from Lancaster University and Luke Hildyard of the Pensions and Lifetime Savings Association.

# FOREWORD

My review of modern employment practices argued that ‘good work’ – fulfilling jobs that enable a decent standard of living, but also a sense of purpose, progression, recognition, security and fair treatment at work – is critical to the UK’s economic dynamism.

An economy where large swathes of the workforce are trapped in precarious, low-paid occupations that diminish their individual dignity cannot ever be said to be thriving. The fact that I was asked to conduct the review by a Conservative Government illustrates the consensus on this issue.

As a first step towards good work for all, we need to understand more about prevailing working practices. My review called for requirements on companies to provide more information about their employment models and structures. The Department for Business, Energy and Industrial Strategy has recently initiated reforms to this effect, as well as proposals to introduce new stakeholder perspectives into corporate governance structures

However, given the relevance of companies’ working practices to their social license to operate and the positive impact that an engaged workforce with a positive view of their employer can have on performance, there is no reason for firms to wait to provide better disclosures until they are compelled to do so.

Similarly, there are already good reasons for pension funds to encourage investee companies to provide more information about their workforces. Firstly, companies’ employment structures are an integral part of their business model and long-term strategy, so it is impossible to understand their value as an investment proposition without understanding their workforce. Secondly, pension fund members are not just invested in companies through their pension saving, but they are also workers whose lives are shaped by the workplace cultures perpetuated through their pension funds’ investments. So in order to deliver good outcomes for their members, pension fund trustees need to have a good understanding of how the companies they invest in treat their workers.

For these reasons, I am strongly supportive of the role that the Pensions and Lifetime Savings Association has played encouraging better corporate reporting of workforce-related issues through their stewardship toolkit and latterly through this research. The toolkit provides a useful model for reporting, while the research identifies important aspects of employment models that are currently under-reported, providing a focus for future engagement between investors and companies.

In this way, the PLSA is supporting both responsible business and responsible ownership of business. I look forward to seeing the response to this paper and hope that it will contribute to addressing some of the challenges highlighted in my review.

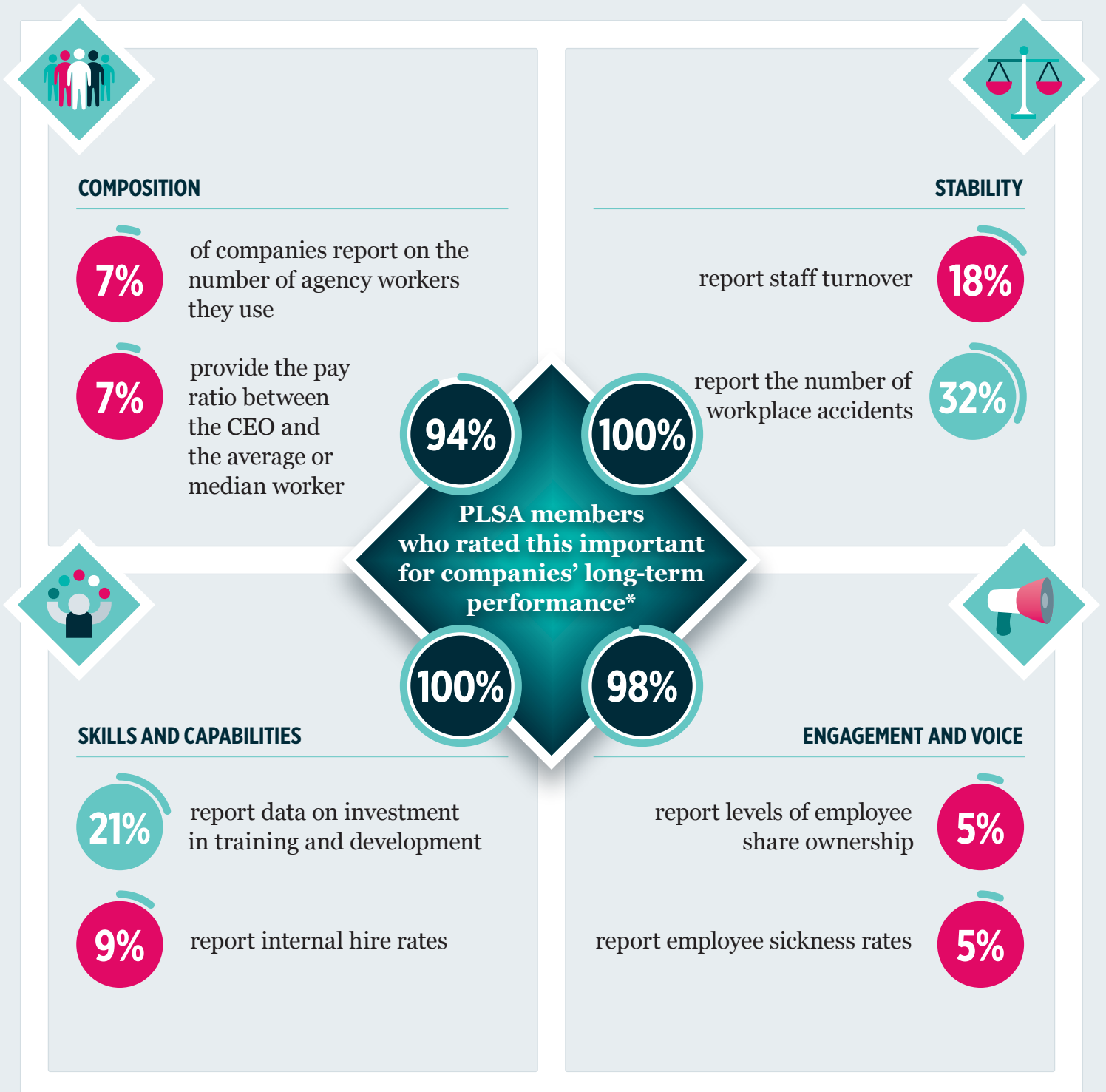


**Matthew Taylor**

**CHIEF EXECUTIVE, RSA**

(Royal Society for the encouragement of Arts, Manufactures and Commerce) and author of Good work: the Taylor review of modern working practices

As long-term investors, pension funds need information about the employment models and working practices of the companies they invest in. We asked Lancaster University Management School to examine disclosures in annual reports, to find out what FTSE 100 companies tell us about their workers...



The PLSA commissioned Lancaster University Management School to conduct analysis of FTSE 100 companies' annual reports to find out what companies say about the people who work for them. The most recent annual report as of June 1 2017 were used to undertake the analysis. 98 FTSE companies were included in reporting as two were ineligible for the study.

\* The PLSA undertook a survey of fund members between 19 January 2016 and 17 February 2016 examining the importance of the workforce when considering investment; 49 fund members responded.

## NARRATIVE REPORTING OF WORKFORCE-RELATED ISSUES

Meaningful reporting isn't just about data. Our analysis examined which companies explained how their employment models relate to their wider strategy and purpose, and whether the workforce-related disclosures in their annual reports were coherent with good reporting practices more generally.



of companies discuss their workforce as a source of value

**BUT**



report on workforce-related risk



provide concrete data on workforce-related issues at a disaggregated level  
(looking at particular divisions or markets within the company)



report use of employee forums (such as, townhall meetings or staff intranet)



reported in a balanced fashion; not always focusing on the positive



discussed performance in relation to a measurable target

**COMPANIES  
NEED TO  
PROVIDE BETTER  
INFORMATION  
AND INVESTORS  
NEED TO ASK  
FOR IT**

*“The public interest in issues like precarious working and economic productivity, and the government’s proposed corporate governance reforms giving workers and other stakeholders more say in reporting, demonstrate an urgent need for better disclosure about employment models and working practices.*

*We encourage both companies and investors to engage with initiatives designed to promote better reporting, leading to better outcomes for companies, investors and workers alike.”*

**Luke Hildyard**, Policy Lead Stewardship and Corporate Governance, PLSA

If you would like to find out any more about our work, please contact  
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# EXECUTIVE SUMMARY

This paper examines corporate reporting on employment models and working practices across the FTSE 100. It is premised on the argument that a stable, motivated workforce who feel financially secure, professionally fulfilled and appropriately skilled to carry out the responsibilities of their job will greatly increase the chances of long-term success for any company, regardless of its sector, strategy or market. Therefore, comparable information about employment models and working practices is of considerable interest to investors and ought to figure prominently in annual reports.

The toolkit highlights the composition; stability; skills and capabilities; and engagement levels of the workforce as key themes that are important to investors. It also identifies a series of concrete metrics that can serve as proxies for these themes.

## THE FINDINGS

The research identified highly varied levels of engagement with these themes. On almost every measure or characteristic that we assessed, there was some degree of reporting, however other than where particular disclosures are mandatory, there were no aspects of reporting that were practiced universally across the FTSE 100. Full findings were as follows:

***Composition – who are the company’s workers and on what terms are they employed. Wider debates around workplace diversity and recent controversies relating to the use of agency workers and flexible contracts have made this a subject of considerable stakeholder interest.***

- ▶ 64% of companies provide some meaningful narrative commentary on the composition of their workforce (usually in relation to different types of diversity).
- ▶ All companies provide data on gender diversity, at board level. Most also do so for management-level employees (99%); and overall workforce (99%). Only 15% provide details of the ethnic diversity of their workforce.
- ▶ All companies detail their CEO’s pay relative to the other executive directors, but only 7% provide the pay ratio between the CEO and the average or median worker. However, this will soon be a legal requirement.
- ▶ Only 4% of companies provide a breakdown of their workforce by full time and part time workers. Only 7% provide data or policies on their use of agency workers. This is surprising, given the public interest in precarious working, and the reputational damage that some companies have suffered as a result of criticism of their use of flexible working contracts and agency workers.

***Stability – how stable and secure the current workforce is, and how it might change over time. Again, this relates to wider debates about precarious working and sustainable employment models.***

- ▶ This was the least discussed of the four themes, with just 10% of companies providing any meaningful narrative commentary.
- ▶ Only 18% of companies provide any figures on staff turnover. Just 3% provide figures disaggregated by group.
- ▶ Figures on accidents and injuries vary by sector, with high risk sectors (for example mining or construction) providing much more detailed disclosures. 52% of all companies provide at least one metric in this respect, with deaths in the workplace (34%); number of accidents (32%); and time lost to injuries (26%) proving most common.

***Skills and capabilities – how well-equipped the workforce is to meet the company’s future skills needs. Training and investment in people are critical to future productivity.***

- ▶ 52% of companies provide a meaningful acknowledgement of their approach to the skills and capabilities of their workforce.
- ▶ 21% provide concrete data in relation to investment in training and development or the number of workers trained. These figures are surprisingly low given the likely amounts invested in training processes, and stakeholder interest in economic productivity. The lack of disclosures could result from commercial sensitivity, a lack of investor interest, or challenges generating data.



*Employee engagement and voice – how motivated is the workforce and how fulfilled in their jobs and committed to corporate goals. This is a key driver of long-term performance and also relates to growing interest in the quality of work as an indicator of economic performance, alongside other traditional measures (such as employment levels or economic growth).*

- ▶ 34% of companies provide a meaningful narrative discussion of ways in which they foster and measure employee engagement. This is less than the 42% who provide the results of an employee engagement survey – in some cases the survey details lacked any useful explanatory context.
- ▶ Though employee surveys can be useful, it is useful to underpin them with other indicators of engagement. In addition to the 18% of companies providing details on staff turnover, 5% provide figures for sickness absence rates. Just 1% provide details on retention rates post-parental leave.
- ▶ 64% of companies disclose mechanisms for dialogue between the workforce and senior management (for example, town hall-style meetings or staff intranets). 9% provide details of trade union coverage. 15% report processes for whistle-blowing. 5% provide details of employee share ownership.

### *General reporting practices*

- ▶ While 43% of companies provided detailed discussion of how their workforce adds value or contributes to the execution of company strategy, this is much smaller than the 91% who discussed the workforce in relation to risk management.
- ▶ Workforce-related issues were judged to be fully-integrated into the annual report at 56% of companies, with systematic cross-referencing throughout the report and discussion of workforce-related issues in relation to the relevant different sections.
- ▶ 30% of reports were judged to be clear, 48% reasonably clear and 22% opaque, in relation to their presentation of workforce-related issues (clarity was judged on two criteria) whether information on the workforce was easy to find and ii) whether disclosures provided the necessary information on workforce-related issues).
- ▶ 49% of companies provide discussion of workforce-related performance in relation to specific targets.
- ▶ 49% of companies provide forward-looking commentary on workforce-related issues while 51% focused solely on past performance.
- ▶ Only 14% of companies provided concrete data on workforce-related issues at a disaggregated level, looking at particular divisions or markets within the company.
- ▶ 61% of companies discussed workforce-related issues in a balanced fashion that is not systematically focused on the positive, and include some reflection or self-criticism.

### **CONCLUSION**

Overall, our analysis suggests that there are still substantial variations in the quality of reporting of workforce-related issues. The onus is both on companies to provide better information and on investors to ask for it. We encourage both companies and investors to engage with recent initiatives designed to promote better reporting, such as the PLSA toolkit, as well as the Investment Association's long-term reporting guidance and the ShareAction Workforce Disclosure Initiative.

By working together, stakeholders can achieve better outcomes for companies, investors and workers alike.



# BACKGROUND

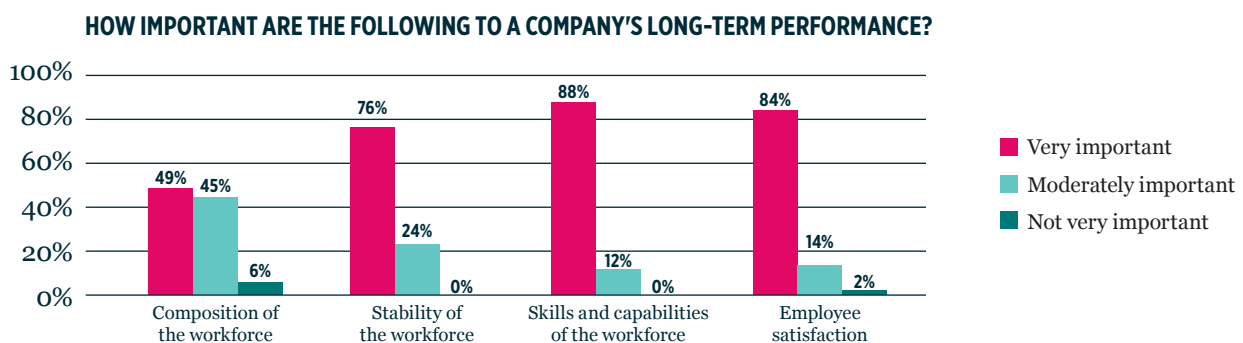
This report analyses corporate reporting on employment models and working practices, based on research by the Lancaster University Management School. The report represents the latest output from a long-running programme of PLSA events and publications on this topic, and its importance to pension fund investors.

## WHERE'S THE WORKFORCE IN CORPORATE REPORTING?

In 2015 we published *Where's the workforce in corporate reporting?* a discussion paper arguing that investors need more detailed information about the workforces of the companies they invest in.

The paper noted that the organisational culture and performance of any company is shaped by the people who work for it but workforce-related issues were comparatively under-discussed in communications between companies and investors. We identified four themes in particular – the composition, stability, skills and capabilities, and engagement levels of a company's workforce – that should be detailed in annual reports, to enable better understanding of corporate employment models and working practices. A survey of PLSA members undertaken as part of this project found that in excess of 90% of respondents felt that each theme was quite or very important to a company's long-term performance.

**Figure 1: Pensions funds views on workforce-related issues**



## UNDERSTANDING THE WORTH OF THE WORKFORCE

Following publication of the discussion paper, we developed Understanding the worth of the workforce: a stewardship toolkit for pension funds based on conversations with pension funds and other investors, company representatives, and a range of additional stakeholders including professional experts, academics and trade unions.

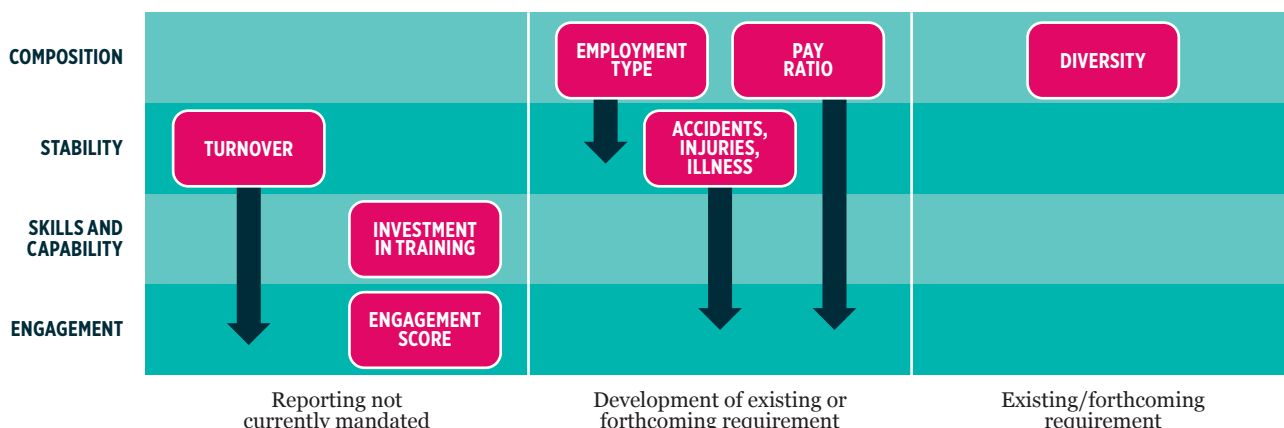
The toolkit set out some key standards for reporting on workforce-related issues and suggested that pension fund investors should engage with their investee companies to promote these standards. It reiterated the importance of the four themes of composition, stability, skills and capabilities, and engagement levels identified in the initial discussion paper, and suggested that companies should seek to detail these in annual reports as part of a narrative discussion of how their employment practices relate to their long-term organisational strategy and purpose.

The toolkit also suggested key metrics that could act as proxies for the broader themes and underpin the narrative reporting with concrete, consistent, comparable data points. This would also enable historic and intra-sector comparisons to inform investors' investment and engagement strategies.

The metrics were:

- ▶ Diversity metrics – such as gender, ethnicity, or social background.
- ▶ Breakdown of the workforce by employment type, for example use of full-time, part-time and agency workers.
- ▶ Staff turnover rates.
- ▶ Workplace accidents, injuries and illnesses.
- ▶ CEO/worker pay ratio.
- ▶ Investment in training/development.
- ▶ Worker engagement score.

Figure 2: Metrics for supplementing narrative information on culture and sustainability of working practice



**WORKFORCE REPORTING: PUBLIC, POLICYMAKER AND INVESTOR INTEREST**

Following publication of the toolkit, we sent copies to our membership, and to the Chairs of the FTSE 350 companies. We received a positive response from the companies, and our recent stewardship survey indicated that some of the UK’s largest pension funds have used the toolkit to support their investment practices.

Over the course of our programme of work in this area, the issues of employment models and working practices at UK companies, and how investors interact with companies over these issues, have become increasingly prominent. This is the result of a number of other concurrent initiatives.

- ▶ In Summer 2017, the Department for Business, Energy and Industrial Strategy (BEIS) published a series of proposed corporate governance reforms designed to strengthen stakeholder representation in corporate governance structures.<sup>1</sup> These include requirements for companies to report on how they have met their legal obligation to have regard for the interest of their stakeholders (including their workers) and to demonstrate communication channels between the workforce and the board.
- ▶ The Pensions Regulator (TPR) has issued guidance for both DB and DC schemes stating that pension funds should demonstrate their approach to financially material ESG factors.<sup>2</sup> This effectively makes consideration of the relationship between the employment models and long-term business strategy/performance of their investee companies mandatory for UK pension schemes.
- ▶ The 2017 Taylor Review of Employment Practices in the Modern Economy highlighted the precarious nature of working life in the UK, and recommended that companies be required to disclose details of their employment models, with particular reference to their use of flexible contracts and agency workers.<sup>3</sup> The review also encouraged companies to carry out independently-verified employee engagement surveys and to disclose the results.
- ▶ In summer 2017, a coalition of investors with assets under management worth approximately £8 trillion launched a ‘Workforce Disclosure Initiative’ (WDI). The initiative will distribute a survey to an initial 75 targeted companies, asking them to provide data and information on key workforce-related issues. The framework draws on the PLSA Stewardship toolkit, using the four themes of the composition, stability, skills and engagement levels for the areas that the companies’ disclosures should cover.
- ▶ More generally, economic challenges relating to workplace issues in the UK, including low productivity, precarious employment and pay inequality have become increasingly prominent in public debate. The potential role of investors in resolving these challenges has been widely discussed – for example, the Investment Association’s long-term reporting guidance highlights workforce-related disclosures that investors should seek from investee companies.<sup>4</sup> The Trade Union Share Owners resolution calling for the Sports Direct board to commission an independent review of human capital management practices at the company, supported by 53% of independent shareholders at the company AGM in September 2016, provides an example of investor interest in workforce-related issues.<sup>5</sup>

1 Department for Business, Energy and Industrial Strategy, *Corporate Governance Reform: the Government’s response to the Green Paper*, 2017

2 The Pensions Regulator, *DB Investment Guidance, 2017 and Guide to DC Investment Governance*, 2016

3 *Good work: The Taylor Review of modern employment practices*, 2017

4 Investment Association, *The Investment Association Long-term reporting guidance*, 2017

5 Guardian, *Sports Direct Chairman bows to pressure and agrees to independent review*, 20 September 2016

- ▶ Understanding of the materiality of workforce and ‘human capital’ related issues to investment value continues to develop. Our annual stewardship survey of pension fund investors found that more than three quarters of respondents believe that ESG considerations (including pay and working conditions at investee companies) are financially material to their investments.<sup>6</sup> Similarly, our analysis of the ESG risk exposure of a typical DC default fund found that risk relating to ‘human capital’ was the most significant single ESG risk factor.<sup>7</sup> The analysis adds to a growing literature on the relationship between workforce or social issues and financial performance.

## RESEARCHING REPORTING

These developments reflect two key trends that are unlikely to abate in the coming years. The first is growing investor interest in employment models and working practices, and the integration of workforce-related analysis into investment practices. Second, there is a heightened societal/political expectation that companies will ensure fair and decent working conditions for their workers, and that investors will act as stewards of investee companies in this respect.

Therefore, we wanted to understand how reporting practices have developed in the UK in response to both these trends. We commissioned Lancaster University Management School to assess standards of reporting across the FTSE 100 in relation to our toolkit, looking at reporting in respect of its four themes. The researchers made qualitative assessments of the narrative discussion of each theme, as well as analysing the metrics used to provide evidence of the composition, stability, skills and capabilities, and engagement levels of their workforce. They also analysed and assessed the presentation of workforce-related issues more generally.

The results show where improvements in reporting are needed, and how investors and companies can work together to deliver them. We hope they will provide a useful staging post to mark progress on stewardship of workforce-related issues to date; and that they can also serve as a baseline to inform analysis of both statutory initiatives such as the Government’s corporate governance reforms, and industry-led projects such as the Workforce Disclosure Initiative.



<sup>6</sup> Pensions and Lifetime Savings Association and IA, *Stewardship Survey*, 2017

<sup>7</sup> PLSA, *ESG risk in default funds: analysis of the UK’s DC pension market*, 2017

# METHODOLOGY

The Lancaster University Management School analysed the most recent annual reports of the FTSE 100 as of 1 June 2017. The analysis excludes Scottish Mortgages Investment Trust and the Coca Cola Hellenic Bottling Company on the basis of their unique features (for the former, its status as an investment trust, for the latter, its relationship with the Coca Cola company).

The research analyses each annual report, identifying whether there has been meaningful narrative discussion of each of the four themes of composition, stability, skills and capabilities and engagement, as well as whether concrete disclosures have been provided in relation to the individual underlying metrics proposed in the toolkit as proxies for each of the four themes.

The researchers also assessed whether each report fulfilled what they considered to be general characteristics of good reporting in relation to its discussion of workforce-related issues (for full details see annex).

# RESEARCH FINDINGS

The standards of reporting identified by the research indicated highly varied levels of engagement with different characteristics of the workforce. On almost every measure or characteristic that we assessed, there was some degree of reporting, however other than where particular disclosures are mandatory, there were no aspects of reporting that were practised universally across the FTSE 100. In some areas of particular investor interest, companies providing meaningful reporting were the exception rather than the rule.

## COMPOSITION OF THE WORKFORCE

A majority of companies (64%) provide some meaningful commentary on the composition of their workforce in their annual report. These nearly always relate to diversity. The best reports explain the benefits of diversity to their organisation. For example, Wolseley states in its report

*'A diverse workforce brings with it the widest range of knowledge, skills and experience and promotes innovation.'*<sup>8</sup>

Reports that reference diversity without discussing the benefits of diversity or measures in place to achieve workforce diversity were not judged to have provided meaningful narrative reporting.

The decision by 36% of companies to eschew this issue in their annual report is surprising given the prominence of equality and diversity-related issues both in society as a whole and in relation to corporate governance and reporting specifically. The Davies, Hampton Alexander and Parker reviews on gender and ethnic diversity, as well as the introduction of the gender pay reporting requirements in 2017 all reflect the importance of the subject.<sup>9</sup>

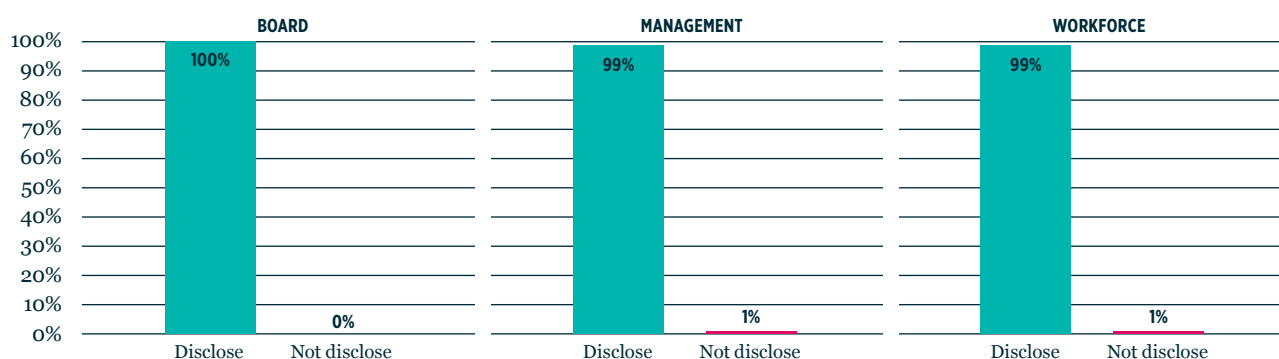
### GENDER DIVERSITY

The annual reports in our sample were either published after the April 2017 introduction of the gender reporting requirements, or before the introduction but in the knowledge that disclosure of the gender balance of different levels of the company would shortly be mandatory.

As such, all companies report gender balance data for their board, while 99% do so for management-level employees, and for their overall workforce.

However, this is notably higher than the number offering a useful contextual explanation of how the composition of their workforce meets the needs of their business. In order to derive greater value from these mandatory disclosures on gender diversity, investors should encourage companies to provide better explanatory detail.

**Figure 3: Reporting on gender diversity**



<sup>8</sup> Wolseley plc, Annual report 2016, p19

<sup>9</sup> See the BEIS, Women on Boards: the Davies Review, 2011; BEIS, FTSE Women Leaders: the Hampton Alexander Review, 2016; BEIS, The ethnic diversity of UK boards: the Parker Review, 2016; and Government Equalities Office, Equality Act 2010 (Gender Pay Gap Information) regulations 2017

### OTHER FORMS OF DIVERSITY

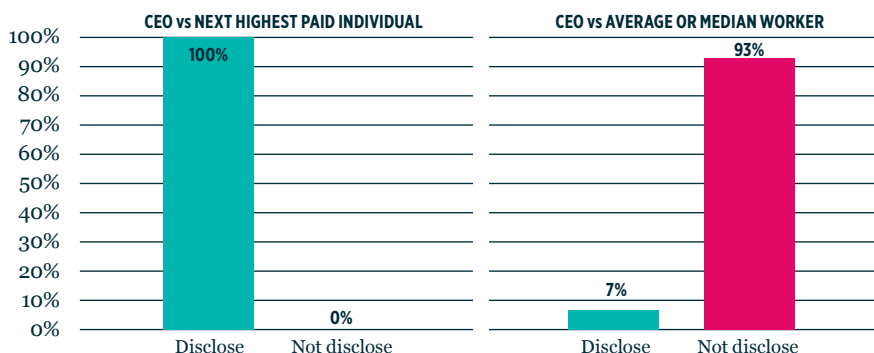
Other aspects of employee diversity such as age, ethnicity and sexual orientation highlighted by the PLSA as potential supplementary metrics receive much less attention despite both their legal status as protected characteristics and research evidence concerning the decision-making benefits of diversity broadly defined. Just 15% of companies detailed the ethnic diversity of their workforce. It was also interesting to note different diversity metrics cited in relation to company or sector-specific issues. For example, Anglo-American was one of four companies to provide figures on social diversity, for its South African workforce at management level. The company has substantial operations in South Africa, where inequality of economic opportunity is a source of political controversy.<sup>10</sup> BAE Systems provides a breakdown of its workforce by age, showing how well the company is positioned to meet its need for workers with Science, Technology, Engineering and Mathematics skills at a time when they are in short supply.<sup>11</sup>

However such cases are exceptions rather than the rule and no company in the sample provides detailed diversity-related disclosures on a full suite of protected characteristics.

### PAY RATIOS

Similarly, regulations requiring companies to calculate a single figure for their executive directors mean all companies report CEO pay relative to other executive directors.<sup>12</sup>

Figure 4: Reporting of pay ratios



Mandatory information tends to be presented in the remuneration report but crucially no company provides meaningful commentary on the magnitude of the difference and the associated rationale, despite the fact that the ratio of CEO pay to the next highest paid director is widely understood to be a useful indicator of culture and quality of succession planning. A report from the Chartered Institute of Personnel and Development suggests that very high pay in relation to other directors can indicate ‘self-serving tendencies’ and notes ‘a need for rewarding more shared leadership, with a more balanced distribution of accountability and reward across the executive team.’<sup>13</sup>

Only 7% of companies provide a pay ratio between their CEO’s pay and that of their average or median worker – however, in August 2017 the government announced plans to make this a regulatory requirement.<sup>14</sup>

### EMPLOYMENT TYPES

Very few companies provide meaningful information on employment type. Only 4% of companies provide a breakdown of their workforce by full-time and part-time workers; and only 7% disclose data or policies on the use of agency staff.

Information relating to the use of zero-hours or short-hours contracts, or reliance on self-employed workers is scarce. (Intu is one of the few reports that provides an explicit policy statement regarding the use of zero-hours contracts: the company explains that it does not operate such contracts).<sup>15</sup>

10 Anglo American plc, Annual Report 2016, p31

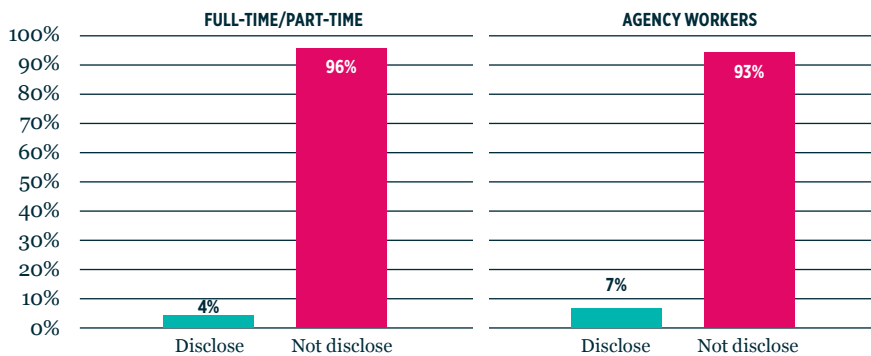
11 BAE Systems plc, Annual report 2016, p22

12 BEIS, Enterprise and Regulatory Reform Act, 2013

13 Chartered Institute for Personnel Development, The power and pitfalls of executive reward: A behavioural perspective, 2015

14 Corporate Governance Reform: the Government’s response to the Green Paper

15 Intu Properties plc, Annual report 2016, p9

**Figure 5: Reporting on workers by employment type**

Such low levels of reporting are striking, given the levels of interest in precarious employment contracts and the controversies that have afflicted prominent UK companies in relation to their use of different types of workers. Companies may have less influence over or understanding of the terms and conditions of their agency workers, meaning the risk of workforce-related problems is heightened for firms whose workers are not directly employed. So again, it is surprising that this information is not disclosed.

The Taylor Review recommended requiring companies to disclose more information about their reliance on agency or flexible workers. The recent requirements on the publication of pay ratios offer a precedent for the government forcing companies to disclose information that they are not providing of their own volition. This suggests that if companies wish to avoid further compulsory disclosure of their employment practices, this is one area where it would be particularly prudent to improve their reporting.





## STABILITY OF THE WORKFORCE

The use of part-time and agency workers and flexible contracts also tells us a great deal about the stability of companies' workforces. Therefore, it is surprising that discussion of this subject is very rare in annual reports. Our analysis found that only 10% of companies provide any meaningful narrative discussion on the general issue of the stability of their workforce.

Examples of good practice included Whitbread, whose report states that it has:

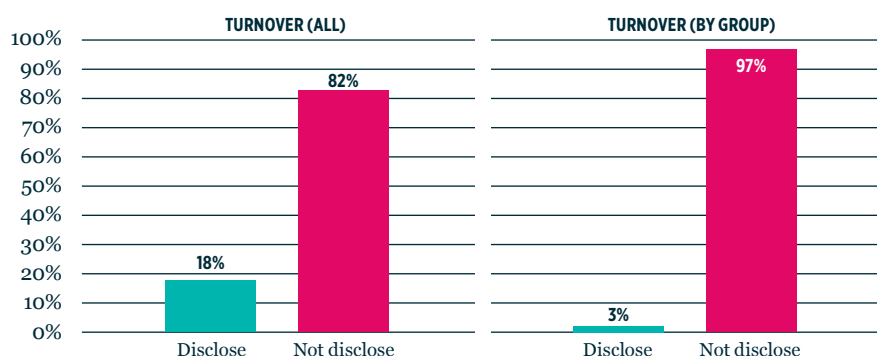
*'the aim of keeping team turnover as low as possible in order to have more settled and consistent teams, to provide a better service to our customers and to help us to keep the cost of recruitment and training low.'*<sup>16</sup>

GKN also states a target in reference to workplace stability of 5% turnover for management employees, and then explains why its restructuring activities means that its performance of 6% failed to achieve this target.<sup>17</sup> In both cases, the companies provide explanatory narrative to contextualise their strategy and performance metrics, as recommended in our toolkit.

### TURNOVER

Turnover rates are the proxy metric for workforce stability most frequently reported in annual reports, but even here disclosure levels are very poor: only 18% of companies provide aggregate employee turnover data and only 3% companies disclose turnover or retention rates disaggregated by category of employee.

**Figure 6: Reporting on staff turnover**



Again, given the interest in intangible factors including culture and human capital as drivers of company value, the lack of reporting of this metric seems remiss. Supported by proper narrative reporting explaining the balance of the workforce and how staff in key areas are attracted and retained, turnover is a useful metric for informing assessments of a company's prospects, particularly for companies in sectors reliant on skilled and/or mobile workers. Turnover disaggregated by division or geography can also help pinpoint issues within the company in key markets that might not otherwise come to light.

### ACCIDENTS AND INJURIES

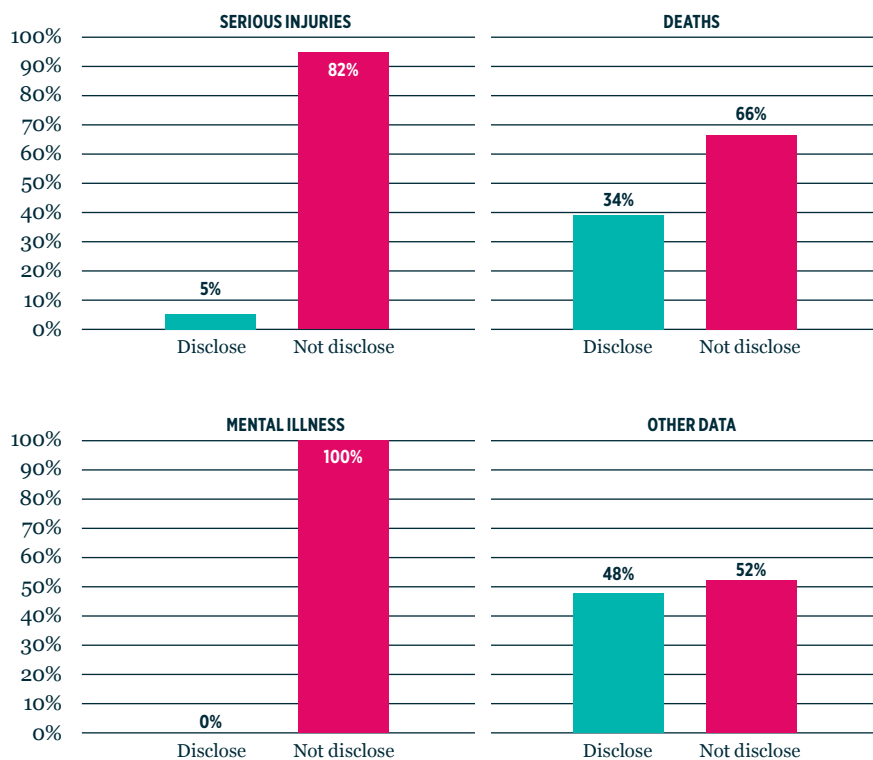
The treatment of accidents, injuries and employee welfare is characterised by contrasting disclosure approaches, with a handful of companies providing very detailed information while the vast majority of reports contain little or no meaningful analysis. Sector-related factors account for a large proportion of this variation, with high risk industries such as mining and construction typically providing more detailed information. While some companies detailed a number of different metrics relating to accidents and injuries, 48% did not disclose any related data at all.

However, variation in transparency levels is also evident across companies in the same sector. For example, across the mining, construction and oil and gas sectors the number of metrics relating to accidents and injuries ranges from 11 to three. Furthermore, while non-disclosers are typically associated with perceived low risk industries, whether non-disclosure reflects immaterial levels of accidents and injuries or non-disclosure of material rates is unclear.

Where information is reported, the data are characterised by heterogeneity in terms of both the focus of the commentary (e.g. accidents, serious injuries and fatalities) and the level of detail provided in the corresponding narrative. Higher quality reports discuss performance in relation to a stated target in a balanced fashion and provide a breakdown of figures by market or division. Poor reports are characterised by a less detailed narrative, a failure to discuss the human cost of accidents and injuries, and no consideration of whether lessons have been learned for the future.

<sup>16</sup> Whitbread plc, *Annual report 2016/17*, p17

<sup>17</sup> GKN plc, *Annual Report 2016/17*, p17

**Figure 7: Reporting on accidents, injuries and workplace illnesses**

### MENTAL HEALTH AND WELLBEING

It was notable during the discussions informing the development of the PLSA toolkit that a number of investors expressed an interest in the reporting of workplace-related mental illness cases as an important societal issue and a useful indicator of corporate culture.

As Figure 5 demonstrates, none of the reports examined provide specific numbers in relation to this issue during the reporting period. This is clearly a sensitive reporting issue for companies and lack of transparency is perhaps not surprising considering the attention that low rates of mental wellbeing are likely to attract (both from external and internal stakeholders). However, failure to provide information on the issue serves only to perpetuate any organisational challenges that may already exist, as well as reinforcing broader inconsistencies in the way both business, and society more generally approach the matter of physical versus mental wellbeing.

Several companies do discuss mental wellbeing, including preventative measures designed to promote the wellbeing of their workers and support for those who maybe experiencing mental health problems at a general level. This represents a positive development. BAE Systems, for example, include a section in the report entitled *'Promoting good mental health in the workplace'*: this discusses the steps taken to raise awareness of mental health issues, as well as the company's support in Australia for the 'R U OK?' suicide prevention campaign.<sup>18</sup>

### OTHER WORK PLACE HEALTH AND WELLBEING METRICS

Time lost due to injuries and the accident frequency rate were the most common metrics used by companies to indicate their health and safety record, and the diligence and security of their working practices. 26% of companies disclosed figures on time lost due to injuries, while 32% provided a total number of accidents. 6% provided figures on occupational disease rates.

As was noted in the PLSA toolkit, UK workplaces are required to report accidents and injuries to the Health and Safety Executive, so reporting on these measures is not additionally burdensome to companies with extensive UK operations. Therefore, these figures are perhaps a little lower than might be expected.

<sup>18</sup> BAE Systems, *Annual report 2016*, p16

## SKILLS AND CAPABILITIES

52% of the companies in the sample included a narrative discussion of the skills and capabilities of their workforce in their annual report. 48% do not provide a meaningful commentary, representing a roughly even split between those that do and those that do not.

Examples of informative and meaningful discussion include Randgold Resources, whose report explains that developing the skills of local workers in the companies in which they operate:

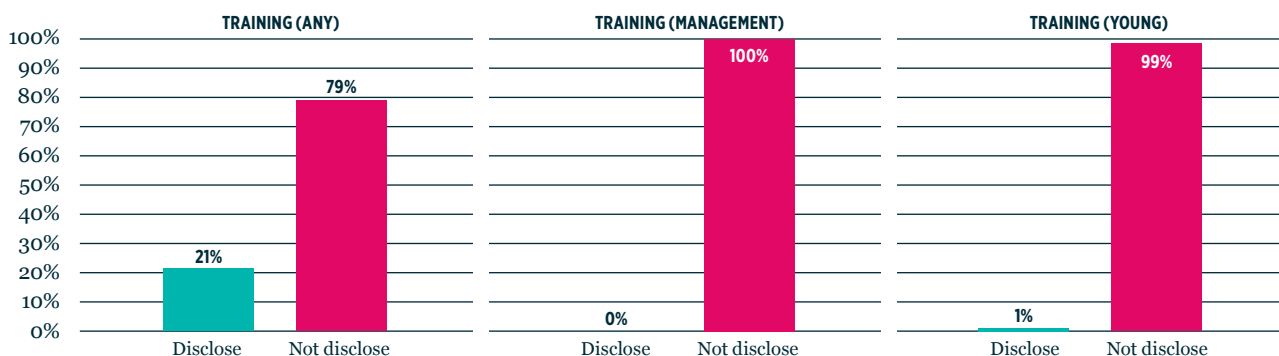
*'is a strategy that helps create an effective and loyal workforce at a relatively low cost base, cements strong community relations and fosters a secure environment for our mines.'*<sup>19</sup>

Weaker disclosures stated the importance of developing the capabilities of their workers without explaining why or how this was done.

### INVESTMENT IN TRAINING AND DEVELOPMENT

Only 21% of companies provide concrete data on their training programmes in terms of, for example, the number of staff trained or their budget for training and staff development. Furthermore, variation is evident in the definition of training-related metrics, making comparisons between companies difficult.

**Figure 8: Data on investment in training and development**



More informative reports supplement metrics with case study information and explain the company's long-term skills needs and how the training programme is structured to fulfil them, whereas less informative disclosures contain broad statements regarding the benefits of a well-trained workforce and the importance of training without explaining directly how it supports value creation in the organisation.

Only one company (SSE) discloses material details of training arrangements for graduates and apprentices.<sup>20</sup> Separate from its main annual report, SSE also produces a report, calculating the value of its 'human capital.'<sup>21</sup> This report quantifies SSE's investment in its workers, and calculates the value that this investment generates for the company (in terms of increased productivity); the worker (in terms of higher career earnings potential); and wider society (in terms of increased tax contributions).<sup>22</sup>

No company in the sample provides details of management training programmes. Succession planning arrangements for senior management and strategically important organisational roles is also rarely covered. However, 9% do provide details of 'internal hire rates' a useful indicator of how well the company is developing its staff and the opportunities for employee progression (likely to foster higher levels of engagement and commitment).

Given that FTSE-100 companies undoubtedly invest significant resources in training, reporting practices in this area almost certainly lag behind actual activities and policies. Precisely what factors limit transparency on this theme are unclear – they could include commercial sensitivity (companies not wishing to disclose successful methods for increasing productivity to their competitors); a lack of investor interest; or the difficulty of generating accurate data owing to the challenges of separating out training time/expenses from other staff costs such as induction procedures or managerial oversight.

<sup>19</sup> Randgold Resources plc, *Annual Report 2016*, p129

<sup>20</sup> SSE plc, *Annual Report 2017*, p20

<sup>21</sup> SSE plc, *Valuable people: Understanding SSE's human capital*, 2015

<sup>22</sup> SSE plc, *Valuable people: Understanding SSE's human capital*, 2015

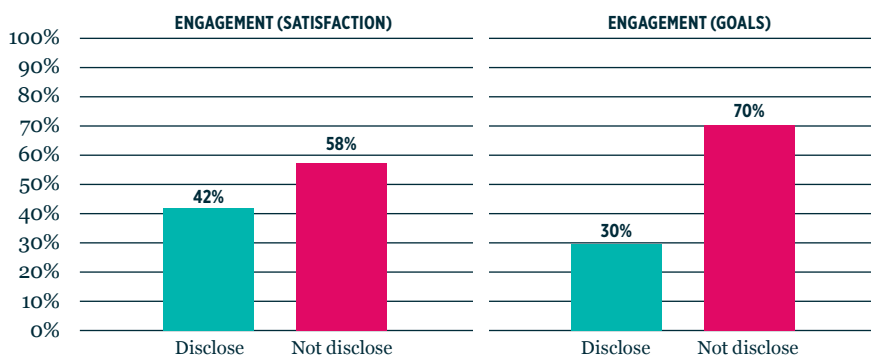
## EMPLOYEE ENGAGEMENT AND VOICE

Only 34% of companies provided a meaningful narrative discussion of procedures for employee engagement in their annual reports. This is a relatively low number, meaning that two thirds of companies in the sample did not discuss the engagement levels, commitment to corporate goals or morale of their workers.

### EMPLOYEE ENGAGEMENT SCORE

Contrastingly, 42% of companies provided concrete data on their employee satisfaction score – in other words, a number of companies provided the engagement score as a survey response without any meaningful explanatory narrative. 30% provide forward-looking detail setting out the relationship between their engagement score and wider organisational goals.

**Figure 9: Reporting on employee engagement**



### OTHER FORMS OF FOSTERING ENGAGEMENT

In terms of specific ways of aligning workers' interests with long-term corporate goals, it was interesting to note that 5% of companies reported on levels of employee share ownership. Share-based payments form a substantial proportion of executive pay packages, on the basis that business leaders with significant shareholdings are more likely to take decisions in the long-term interest of the company, in order to maximise the value of their shareholding. It seems that few companies are applying the same logic to the wider workforce (or at least reporting that they are doing so).

In general reporting on employee engagement/well-being/satisfaction was highly varied, owing to the quality and quantity of supporting narrative. An abstract survey score has little value to investors – reporting on this issue emphasises the need for information on, for example, progress against targets; measures the company has in place to foster engagement and commitment; what responsibilities it accepts in terms of worker well-being/satisfaction and how this relates to their long-term strategy and purpose.

In this respect Whitbread's disclosures were an example of good practice - the report presents the engagement score for all employees. It then goes on to detail the engagement score by business line, which allows for deeper analysis of performance and any resultant issues.<sup>23</sup>

### VERIFYING ENGAGEMENT

The engagement and stability themes are strongly related, because a highly engaged and committed workforce is likely to be more stable. The St James's Place report notes this, stating that:

*'strong engagement contributes to low levels of staff turnover and underpins the quality and sustainability of our proposition to Partners and clients alike.'*<sup>24</sup>

This suggests that the staff turnover figure (provided, as previously noted, by 18% of companies) might help to provide an insight into engagement levels and to verify the engagement score. The same principle applies to sickness absence rates (disclosed by 5%) and retention rates post-parental leave (1%).

Similarly, pay and benefits are likely to be one of the main factors in attracting and retaining workers. 8% of companies provided detailed disclosures of the benefits and entitlements accruing to their employees.

However, the use of any of these measures to underpin discussion of employee engagement with solid evidence was rare.

<sup>23</sup> Whitbread plc, *Annual report 2016/17*, p24

<sup>24</sup> St James's Place plc, *Annual report 2016*, p21

## EMPLOYEE VOICE

While measurements of disclosures relating to the composition, stability or skills and capabilities of a company's workforce are reasonably trusted, and thus reporting on these themes in annual reports can be taken to be reasonably reliable, employee engagement is a more subjective matter. Therefore, even when rigorous, independent surveys of employee engagement are undertaken; it is helpful for investors to know what concrete mechanisms are in place for engaging the workforce and ensuring that workers' insights are communicated to the company leadership.

Processes for employee input into strategic decision-making are an effective means of safeguarding against risk, as well as accessing ideas about how to improve the company's product or service from those with first-hand experience of delivering it.

Almost two-thirds of companies (64%) make reference to such procedures, with information often presented either in the Directors' Report or a separate subsection. The majority of disclosers reference employee surveys, 'town hall' meetings and staff intranets as forms of two-way communication.

9% of companies discuss their trade union coverage. Unions provide a voice for workers to speak freely without fear of recriminations, and can therefore be valuable to companies as a source of information critical of their working practices that may not otherwise be forthcoming.

15% of companies refer directly to whistle-blowing arrangements. Although financial services companies are prominent among this discloser group, not all FTSE 100 constituents from this sector provide transparent information on this issue. High-quality disclosures on whistle-blowing report the number of concerns raised, whereas some companies only provide details of procedural arrangements.



## GENERAL REPORTING OF WORKFORCE-RELATED ISSUES

The research also analysed the more general presentation of workforce-related issues, and examined whether discussion of employment models and working practices was coherent with good reporting practices.

### OPPORTUNITY AND RISK

A particularly interesting additional insight from the analysis relates to the discussion of the workforce in terms of risk and opportunity. Many companies provide statements such as *our people are our greatest asset* – these are very common in chairs or chief executives' statements, and 43% provide meaningful disclosures of how their workforce contributes to value creation or the execution of company strategy. For example Lloyds links its training programme to their strategic objective of '*creating the most digitally capable workforce*',<sup>25</sup> which in turn provides it with a competitive advantage in terms of customer service.

However, this is notably lower than the 91% that reported on their workers in relation to risk management (for example, health and safety failings or breaches of legal or ethical standards).

There are obvious risks relating to factors such as reduced output, legal/regulatory costs, reputational damage or reduced quality of output or service resulting from workforce-related issues such as industrial relations, quality of training programmes, or pay and conditions of workers. Therefore it is entirely appropriate for companies to manage the risks associated with their workforce.

At the same time, however, companies with a highly motivated, skilled workforce and the additional reputational value accruing to fair and generous employers have a clear commercial edge.

Despite passages thanking the workforce and the references to workers as a valuable asset, there is clearly more time and effort in reporting dedicated to risk management of the workforce than to nurturing them as an asset to the company. It is worth reflecting on how this reflects the culture and processes of UK companies, as well as how it relates to the UK's challenges regarding productivity and quality of working life.

### QUALITY OF REPORTING

As with the disclosure of specific themes and metrics, the extent to which workforce-related issues were articulated in a way that was useful for investors was also varied.

- ▶ Workforce-related issues were judged to be fully integrated into the annual report at 56% of companies, with systematic cross-referencing throughout the report and discussion of workforce-related issues in relation to the relevant different sections. Astra Zeneca's cross-referencing of its employee share ownership, discussed in narrative form in the strategic report with fuller details in the remuneration report and financial statements, was an example of good practice.<sup>26</sup>
- ▶ 30% of reports could be described as clear, 48% reasonably clear and 22% opaque in terms of their use of language and presentation. Clarity was judged on two criteria: i) whether information on the workforce was easy to find and ii) whether disclosures provided the necessary information on workforce-related issues. Those that fulfilled both criteria were judged to be 'clear' and those that fulfilled one of the two were 'reasonably clear.'
- ▶ 49% of companies seek to provide a direct assessment of performance relative to a target when presenting information on workforce themes and specific metrics. Examples of more transparent reporting include London Stock Exchange (e.g., '*...overall engagement index increased by 6% to 82%, outperforming the external benchmark*')<sup>27</sup> and Whitbread whose report uses a traffic light system to indicate performance against target for a variety of different metrics, including a number relating to its workforce.<sup>28</sup> The use of a target provides valuable context for investors, and if the target has been publicly stated in previous reports or statements, or provides a benchmark for future reporting, ensures greater accountability by demonstrating that the company is not using the report to present itself in an unduly positive light.
- ▶ 49% of companies provide forward-oriented workforce commentary, including concrete targets, or plans to deliver improvements, compared with 51% whose disclosures only focus on contemporaneous or historical issues.
- ▶ Only 14% of companies discuss workforce-related issues at a disaggregated level. While cost considerations, space constraints and avoiding information overload may be considered reasons for not presenting disaggregated

<sup>25</sup> Lloyds Banking Group plc, *Annual report 2016*, p24

<sup>26</sup> Astra Zeneca, *Annual report 2016*, p56, 103 and 182

<sup>27</sup> London Stock Exchange Group plc, *Annual report 2016/17*, p37

<sup>28</sup> *Annual report*, p17

information, companies frequently detail financial or operational information for each of their different markets, divisions or product lines. Therefore, disaggregated information about strategic workforce-related issues should also be considered good practice. Headline data can hide localised problems for companies operating in a number of different markets or providing a wide range of products and services. Examples of good practice include Easyjet, whose report provides employee engagement scores for different roles within the company (pilot and cabin crew for example). Similarly, Diageo's report disaggregates employees by region by gender and by role by gender; in addition to new hires and leavers by region by gender; and lost time accidents by region.

- ▶ 61% of companies discussed issues relating to their workforce in a balanced fashion that was not systematically focused on the positive. The annual report is intended to provide investors and other stakeholders a realistic overview of the company. It is unlikely that the performance or outlook for even the most well-run company would be uniformly positive. Therefore, a balanced annual report is likely to be more accurate, and reflect an approach to leadership that is alert to the risk of complacency. Whitbread's use of a traffic light system - scoring performance against KPIs including engagement, turnover and health and safety red, green or amber depending on whether the target had been achieved - provides a clear and self-critical insight into workforce-related performance.<sup>29</sup>



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<sup>29</sup> Whitbread annual report, p16-17



# CONCLUSIONS

Overall, our analysis suggests that there are still substantial variations in the quality of reporting of workforce-related issues. Most reports do not comprehensively detail the composition, stability, skills and capabilities and engagement levels of their workforce in a way that explains how these relate to the company's long-term strategy and purpose. Indeed only three companies (Royal Mail, Whitbread and Wolseley) provide meaningful discussion of each of our four themes.

While each company has its own unique characteristics, we strongly believe that these themes are important regardless of sector or employment model, and thus ought to be communicated to investors. It is too simplistic to say that companies that score highly in relation to the themes and metrics we identify will perform better, but these themes and metrics are certainly amongst the factors that contribute to company performance. Therefore, better disclosures are helpful to investors.

Other than those categories where very specific disclosures are mandated by regulation, such as executive pay data or gender diversity, there are many useful and widely applicable measures of how well a company has managed its workforce that rarely feature in annual reports.

In some areas, particularly workforce stability, levels of reporting are worryingly low. This seems particularly remiss given public interest in precarious employment, and the importance of information on this characteristic of the workforce to investors.

Similarly, the many companies that only provide positive workforce-related information are possibly failing to adhere with the requirement that annual reports be fair, balanced and understandable.

The limited volume of reporting is also potentially at odds with company directors' responsibilities to act in the long-term interest of their members (ie shareholders) but to have regard for the interests of other stakeholders, including workers. This perhaps explains why the government has proposed more detailed reporting requirements of how these responsibilities have been fulfilled.

At the same time, however, it should be noted that the research has identified a number of examples of good practice from a number of different companies in relation to communicating workforce-related issues to investors. Half of the companies analysed provided some meaningful discussion of at least two of the four themes we identify, demonstrating a basic recognition of our argument that information about employment models and working practices is important.

We are also mindful of the fact that, while the annual report is a critical reference document for existing and prospective investors, it is not the only medium for communicating information about the workforce. Investors can also engage directly with companies – and the PLSA toolkit provides a sample list of questions that might usefully be put to boards at these engagements (see Box 1);

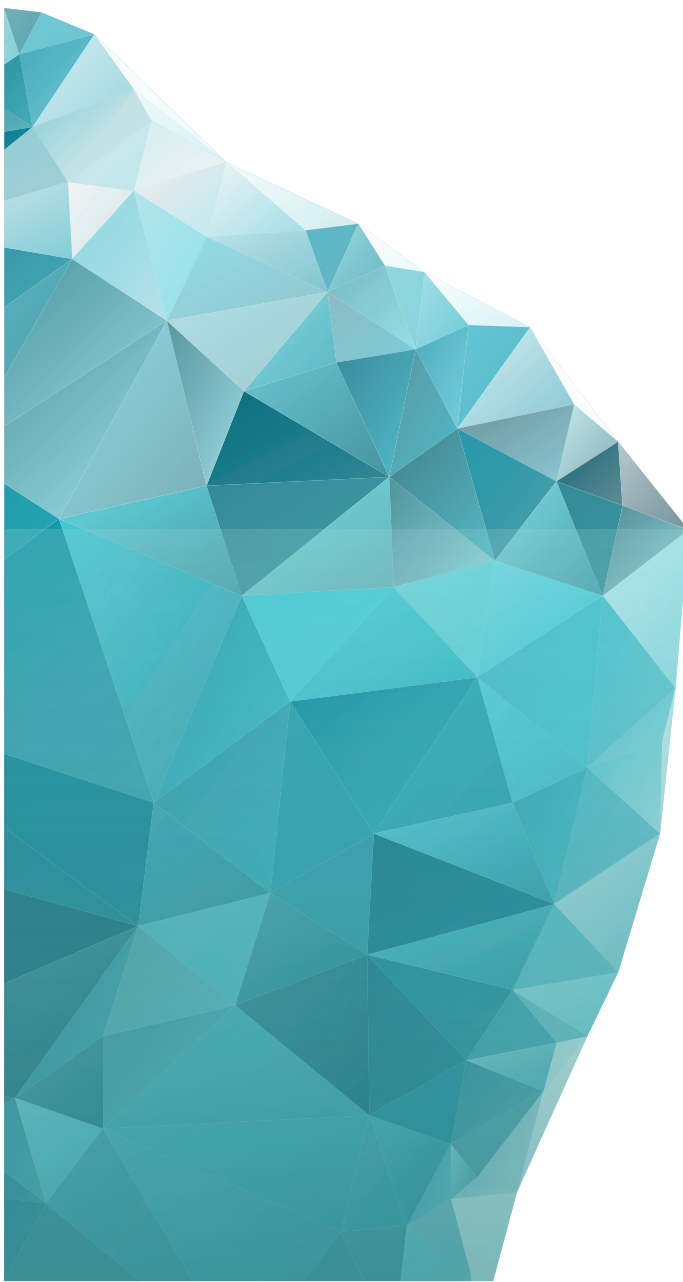
### **BOX 1: SUGGESTED QUESTIONS FOR ENGAGEMENTS WITH COMPANIES (VIA THE PLSA TOOLKIT)**

- ▶ **How would you explain your employment model, in terms of the people that work for you, their commitment to the organisation and the value that they deliver?**
- ▶ **What is the overall culture and management style of the business?**
- ▶ **In terms of culture, how is the tone set by the board reflected by middle management and across the wider workforce?**
- ▶ **How do the board/senior management understand what is going on at the 'frontline' of the company?**
- ▶ **How would you describe the networks, communications and decision making in your organisation (i.e. top-down, informally networked, etc.)?**
- ▶ **What capacity do your workers have to collaborate and innovate and how do you measure this?**
- ▶ **How much individual agency do your workers feel they have in terms of shaping their working lives?**
- ▶ **How do you ensure that people in your organisation feel able to speak out about wrongdoing?**
- ▶ **What are the potential 'risk behaviours' from your workforce that could be problematic to the company, and what action are you taking to mitigate them?**
- ▶ **How well do employees understand their role in relation to risk, and how do they learn from mistakes to avoid repeat incidents?**

Progress has been encouraging in this respect. The PLSA and IA's stewardship survey records 51% of asset managers saying that they have engaged with investee companies over 'reporting on culture, human capital and intangibles', with 66% saying they intend to do so in future.<sup>30</sup>

This finding reiterates the fact that disclosures on this subject are dependent on investors asking for them as much as companies providing them. New projects such as the Investment Association's Long-term reporting guidance and the Workforce Disclosure Initiative are encouraging in this respect, while pension fund investors can continue to use the PLSA toolkit, or encourage their asset managers to do so, in their engagements with investee companies.

We hope that our research will demonstrate why projects such as these are worthwhile, and help to focus future engagements between investors and companies on workforce-related issues, to the benefit of companies, investors and workers alike.



<sup>30</sup> PLSA/Investment Association, Stewardship in Practice: Asset Managers and Asset Owners, 2017

## APPENDIX: SCORING METHODOLOGY

The PLSA Toolkit provides the basis for scoring annual report disclosures according to the amount and quality of workforce-related information provided. The manual scoring approach involves the research team comparing the content of each annual report against an agreed scoring template that includes three broad categories: the four workforce themes highlighted in the PLSA toolkit, the seven workforce metrics and associated measures relating to those themes, and the overall quality of narrative reporting on workforce matters.

### THEMES AND METRICS – OBJECTIVE ASSESSMENTS

The four fundamental workforce-related themes are coded on a binary (yes-no) basis depending on whether material commentary on a given theme is present in the report. For example, a report scores one point if it contains any meaningful commentary on the type of workforce on which the entity's business model is based, whereas reports that make no direct reference to workforce composition are allocated zero for the composition theme. The same approach is applied to the remaining three themes.

Since the scoring procedure relies solely on determining whether or not disclosures on a particular theme are present in the report, the requirement for researcher judgement is limited and so the resulting scores are objective and easily replicated. An audit trail is also created by recording page number(s) for the relevant disclosure(s), together with brief notes summarising the nature of the information provided and any notable features (good or bad) associated with the disclosure.

The same binary approach is applied to the workforce metrics category. Each metric is first decomposed into its component measures and then each measure is scored according to whether relevant quantitative data are provided. For example, in the case of gender diversity (part of the composition theme), an annual report scores one point if it contains gender statistics for the total workforce and zero if no information on gender composition for the total workforce is reported. Similarly, a company scores one point where gender statistics for the board of directors (management-level employees) are provided and zero otherwise. The process is repeated for all measures associated with the remaining six PLSA Toolkit metrics. As before, the scoring procedure requires little or no researcher judgement because it relies solely on determining whether or not details of a given measure are disclosed in the report. To ensure scores are verifiable, page number(s) associated with the relevant disclosure(s) are recorded along with notes detailing the information provided.

### GOOD REPORTING PRINCIPLES – SUBJECTIVE ANALYSIS

The third category of workforce-related disclosures relates to the overall quality of reporting. Quality is assessed along the following nine dimensions:

*Acknowledging the link to strategy, business model and risk management.* High quality reporting on workforce themes and metrics should demonstrate a clear association with the entity's business model and its approach to creating and maintaining value in the long term. This approach contrasts with a boilerplate style of disclosure that eschews company-specific features and considerations. Reports are awarded one point where the discussion clearly links workforce issues to strategic objectives and business model, and zero otherwise.

The PLSA Toolkit also highlights the importance of addressing workforce-related issues explicitly when discussing *future risks and opportunities* facing the business (and how to deal with them). Reports are therefore awarded one point where the commentary includes an analysis of workforce-related risks and opportunities facing the company (including the strategies for mitigating the risks and seizing the opportunities), and zero otherwise.

*Forward-looking commentary.* The PLSA Toolkit emphasises that workforce reporting should include a forward-looking element that highlights anticipated risks and opportunities, together with plans for future improvements. Reports containing forward-looking commentary on at least one workforce theme or metric scores one point, otherwise they score zero.

*Assessment of performance against a clear target.* Informative reporting on workforce themes and metrics involves identifying clear performance targets and discussing performance measured against those targets. Disclosures that provide a meaningful evaluation of performance during the reporting period on at least one workforce theme or metric score one point, otherwise they score zero.

*Balanced reporting.* Provision of balanced, self-critical analysis is central to establishing credibility: anything less risks workforce reporting being viewed by annual report users as uninformative at best, and at worst as potentially opportunistic. Reports that highlight one or more aspects of workforce themes or metrics where improvement is required are considered more balanced and are awarded one point, otherwise they score zero.

*Prominence.* Whether or not workforce-related information is disclosed in the annual report is only part of the disclosure story: *where* the information is presented in relation to the main commentary on strategy, business model, and value creation provides a signal about the perceived importance of workforce issues in the company's list of priorities. Reports where the narrative makes direct reference to the importance of workforce engagement when describing business model and strategy (including, for example, highlighting workforce explicitly as a resource) therefore score one point, otherwise they score zero.

*Additional disaggregation.* Although the PLSA Toolkit is not prescriptive about the way metrics should be reported it nevertheless highlights the benefits of supplementing headline company-wide data with disaggregated information by product market, business segment, organisational hierarchy etc. Reports are allocated one point if they contain disaggregated analysis for at least one workforce theme or metric, otherwise they score zero.

*Integration of workforce themes throughout the annual report.* Workforce contribution and value is a topic that pervades all aspects of business activities. The universal nature of employee-related issues suggests an integrated approach to reporting whereby workforce themes and metrics are discussed at appropriate locations throughout the annual report narrative including commentary on strategy, operating and financial performance, governance and risk management, compensation, etc. In contrast, a silo approach to workforce reporting implies a disconnected, compliance-driven perspective on the subject. We gauge integration using three measures. The first measure captures the presence of explicit cross-referencing to workforce-related issues in the annual report (as evidenced by direct references to specific page numbers and sections). We create an indicator variable equal to one for reports that contain systematic cross-referencing on workforce-related matters, and zero otherwise.

The second measure distinguishes presentation of material workforce commentary throughout key sections of the annual report narrative (integrated approach) from presentation in single standalone sections (silo approach). We create a binary variable equal to one where reporting is diffuse through the annual report and zero where reporting is concentrated.

The third measure captures presentation of a large number of employee-related commentary within the annual report versus outside the document (e.g., in a separate corporate social responsibility report or on the company's website). All else being equal, discussion of substantive employee-related matters within the annual report is more consistent with an integrated reporting approach. We create a binary variable that takes the value of one where limited or no cross-references are made to externally-provided workforce disclosures, and zero otherwise.

*Communication channels and dialogue.* Procedures for encouraging two-way information flows and dialogue between management and the remainder of the workforce are viewed as a critical aspect of high-quality engagement. Effective reporting on this dimension requires detailed information on the types of communication channels and how they are managed. This reporting approach differs from one that merely highlights the importance of employee engagement for business success without providing granular information on communication methods. Reports that provide detailed information on one or more specific dialogue mechanisms therefore score one point, otherwise they score zero.

*Overall clarity of presentation.* Clarity is an acknowledged feature of high-quality narrative reporting. A three-level categorical variable is used to classify the clarity of overall workforce disclosures as either high, medium or low. Reports are assigned to a clarity category based on the researcher's assessment of (i) whether information is easy to find; and (ii) whether disclosures present a clear picture of workforce features and their importance to the company.

Applying the above scoring method inevitably involves a learning process as more annual reports are scored. To ensure consistent treatment of reports evaluated at the beginning and end of the scoring process, the initial 10 reports scored in the first pass were re-scored by the research team. Only a small number of minor adjustments were made to initial assessments, suggesting that the coding method is robust and replicable.









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