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Corporate Boards in the New Era of Employee Voice

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"I need to hear everything, as much as you can share."

In response to the growing unionization movement at Starbucks stores across the United States, Howard Schultz had convened a listening session with Starbucks employees in San Jose, California. There, according to *The Washington Post*, "Baristas told him that they weren't making enough money to pay their bills. They complained about equipment that had been broken for weeks, understaffed stores, insufficient training and supply chain snarls." At listening sessions around the country, workers described routinely feeling unsafe from angry and aggressive customers and people using drugs in the store's bathrooms.

"'I didn't know it existed,' Schultz said. 'I didn't know our people didn't feel safe.'"[1]

The issues for Starbucks extended beyond its stores and hourly employees. In early March 2023, white-collar Starbucks employees had signed an open letter to senior leadership and the board warning, "Morale is at an all-time low, and the brand reputation and financial value of this publicly traded company are at risk." According to *Fortune*, "Both violating baristas' unionization rights, and subjecting white-collar staff to an abrupt return-to-office mandate, the letter argues, reflect the same problem: 'Not listening to partners.'"[2]

Starbucks' reputation as a good employer has been core to its brand for decades. But even in a company with bona fides as a caring employer, the distance between the boardroom and the frontline is vast, and important information is frequently lost in that chasm.

Starbucks is just one example. Across virtually every industry in today's economy, workers expect to be heard and have influence. And the costs to companies who do not listen show up in a variety of ways – in brand reputation, PR costs, legal fees, fines, turnover, employee disengagement, and wasted executive and manager time.

In order to properly discharge their duties, directors are searching for new ways to tune into employee voice.[3] Pressure is building, whether from the inside of the company, as seen in the Starbucks example, or externally from shareholders and regulators in the form of demands for additional disclosures.

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[1] Jaffe, G. (2022, October 8). Starbucks CEO Howard Schultz's fight to stop a union uprising. *The Washington Post*.
[2] Eidelson, J. & Bloomberg. (2023, March 1). Starbucks is dealing with a white collar rebellion as corporate workers sound off over the return-to-office mandate and allegations of union busting. *Fortune*.
[3] Green, M. Director perspectives: The value of worker voice. *A Seat at the Table: Worker Voice and the New Corporate Boardroom* (pp. 6-10). Aspen Institute Business & Society Program.

Why now?

The relationship between employee and employer is evolving rapidly. At the height of the COVID-19 pandemic, frontline essential workers were a valuable source of information and innovation that helped companies adapt to widespread uncertainty. Worker ideas allowed organizations to continue operations, deliver services, and keep stores and facilities safe.

Post-pandemic, employees expect to be heard on issues beyond compensation and benefits. They are demanding a say on matters related to health and safety (both physical and psychological), working conditions (such as return to office mandates), and corporate positions on important social issues that impact employees and their families. Reservoirs of trust are built – or lost – based on whether employees feel heard.

A combination of additional factors – including macroeconomic conditions, sociopolitical trends, and generational change in both the workforce and in corporate leadership – are accelerating these growing expectations across all levels of the company. This has deep implications for brand and reputation.

With more than 80 percent of corporate value now determined by a company's intangible assets,[4] employee insight is increasingly valuable to help identify strategically important information not found on a corporate balance sheet. Employees know that their employers have access to a variety of technological tools to canvas workforce opinion, and they expect their feedback will be solicited.

Current technological developments also allow employees to more easily assess the culture at potential new workplaces and switch jobs. Attracting and retaining purpose-aligned talent to the company has become a first-order business imperative as "belief-driven employees"[5] show themselves to be more productive, engaged, and committed.

Investors are also paying attention. For example:

- In 2020, New York City Retirement Systems (NYCRS) sent a letter to the CEOs of 67 S&P 500 companies, "calling on them to publicly disclose their annual Consolidated EEO-1 Reports, which reflect the race, ethnicity and gender of their employees, with oversight to be provided by independent members of the board."[6]
- In 2022, 113 resolutions were filed on human capital issues like diversity in the workplace, working conditions, safety, benefits, and pay.[7]
- In 2022, State Street Global Advisors announced new expectations that "[t]he board oversees human capital-related risks and opportunities" and that companies will disclose new information regarding human capital.[8] In 2023, they articulated a new "maturity model" for how companies assess and integrate employee voice in corporate decision making.[9]
- EY found that diversity, equity, and inclusion (DEI) represented the largest category of shareholder proposals in 2023.[10]

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[4] Ocean Tomo. (n.d.) *Intangible asset market value study.*
[5] Edelman, R. (2021, August 31). *The belief-driven employee*. Edelman.
[6] Goltser, L. & Odoner, E. (2020, July 29). *NYC comptroller seeks public disclosure of EEO-1 reports.* Weil Governance and Security Watch.
[7] Welsh, H. & Passoff, M. (2022). *Proxy preview: Helping shareholders vote their values*. As You Sow.
[8] Colton, B., Fetter, H., & McCoy, A. (2022, February 14). *Human capital management and diversity disclosures and practices*. Harvard Law School Forum on Corporate Governance.
[9] Fetter, H. & Colton, B. *The board's oversight of employee voice*. Harvard Law School Forum on Corporate Governance.
[10] Smith, J. & Hunker, D.A. (2023, July 19). *What directors need to know about the 2023 proxy season*. EY.

Employee voice is uniquely challenging for boards.

Despite increased attention, a recent National Association of Corporate Directors (NACD) survey found that only 52% of directors "have discussed human capital strategy as a recurring agenda item."[11] Traditionally, boards have deferred to management on most human capital concerns, but the costs of this norm are showing. The thick filter of corporate management prevents important information about the business from reaching the board.[12] Management has few incentives to share employee insight that might reflect poorly on company leadership. And a 50-year decline of unions in the United States removed institutional representation of employee voice, especially in the private sector.

Across industries, from the frontline to knowledge workers, employees are motivated to bring their knowledge to bear to improve company strategy and operations. They are creating new internal channels through employee resource groups (ERGs), petitions, and informal groups and fora. When internal channels fail, they are writing op-eds and open letters, whistleblowing, organizing new union drives, sharing experiences on social media, and filing shareholder resolutions.

Employee voice provides valuable opportunities for boards.

Boards have an opportunity to be proactive rather than reactive. Harnessing employee perspective can improve sightlines into operational risks and opportunities, as well as inform a genuine understanding of company culture. In today's rapidly changing business environment, employee insight is essential information. It should be treated like other critical market signals — captured through multiple channels, reviewed on a regular basis, and embedded in boardroom routines.

The Aspen Institute Business & Society Program's Idea Lab on Worker Voice in Corporate Governance has been exploring these issues with working groups of governance experts and worker advocates. Their conversations raised a variety of questions, including:

- How can boards harness employees' business intelligence to ensure efficient, sustainable business operations and healthy, safe workplaces? How can they use this information to identify and adapt to new customer needs and improve product quality?
- How will this change happen in the boardroom? In which committees should employee insight land? Which board members need to take lead roles?
- Through what channels should employee insight travel to reach the board?
- What mechanisms and tools can help boards make sense of this information?
- What specific types of people need to be on boards to ask the right questions of management regarding employee sentiment and insights?

This discussion also led to suggestions that would allow boards to take advantage of this unique moment and overcome structural impediments to employee voice in the boardroom. The following is not intended to be a comprehensive list, but rather a selection of promising ideas to help boards understand human capital, harness employee insight strategically, and discharge their fiduciary duties in an optimal manner.

[11] Heavren, N. (2023, July 20). *Top concerns for public company directors: AI, ESG, and human capital*. NACD BoardTalk.
[12] Chia, D.. Reimagining board committees to accommodate worker voice. *A Seat at the Table: Worker Voice and the New Corporate Boardroom* (pp. 11-15). Aspen Institute Business & Society Program.

Recommendations

1 Establish a dedicated employee-focused committee to oversee issues across the entire workforce.

A 2019 study of the S&P 500 by Willis Towers Watson found, "a dramatic change in the traditional role of the compensation committee as Human Capital Management (HCM) responsibilities become more prominent."[13] The same report stated that, between 2016 and 2019, 26 companies changed the name of their compensation committee to reflect the committee's broader oversight beyond compensation for senior management – a jump of approximately 140 percent over the previous four years. Today, this trend continues, as boards increasingly recognize the need to evolve their oversight of human capital.

Building an effective employee-focused committee — one that goes beyond talent management at the senior level – requires thoughtful consideration and design. Equally important is the composition of the committee to ensure it has the right expertise and vision. Such a committee is an innovation, both valuable and disruptive.

An employee-focused committee can help the board understand risks and opportunities for the company more clearly and in new ways. Tapping into that value may challenge the assumed division of labor between management and the board. It may require the board to give more weight to employee perspectives (after all, overseeing human capital without engaging the voices of actual workers can be self-defeating). It may occasionally invite difficult conversations about the company's employment model and practices.

While human capital committee responsibilities will vary across companies, core functions may include:

- Overseeing the compensation and benefits philosophy for all employees, not just executives.
- Understanding skills, knowledge, and capabilities across the organization.
- Establishing a strategy for collecting and processing worker insight.
- Enabling new, more direct channels for communicating employee sentiment to the board.[14]

Special care should also be taken to avoid common pitfalls. If human capital committees focus primarily on senior-level talent, they will overlook the deep pools of talent, knowledge, and capabilities in the workforce as a whole. If human capital committees rely on existing tools for soliciting employee sentiment, they will likely suffer from the same blind spots that necessitate a human capital committee in the first place. And human capital concerns must not stay siloed in committee. Human capital should be a regular topic for the whole board in order to influence strategy and risk management.

For many boards, an employee-focused committee will represent a transformation that resets established board habits and assumptions, as well as its relationship with management.

[13] Newbery, R., Delves, D., & Resch, R. (2019, August 27). *Compensation committees & human capital management*. Harvard Law School Forum on Corporate Governance.
[14] One useful tool boards can consult is the *Social & Human Capital Protocol* from the Capitals Coalition.

2 Build new channels for worker insight to reach the boardroom.

Employees are speaking up more than ever, but where do those insights land, and how do they get there? It's crucial to build and maintain a clear, accessible, and robust set of channels for the board to receive high-quality, timely information from employees. An employee-focused committee is an important start. Beyond that, employee voice should also influence plenary conversations in the boardroom.

Company-wide employee surveys are the default channel through which employee insights reach the boardroom. These surveys can be useful, but they also have significant limitations.[15] They are generally designed to provide a snapshot of employee satisfaction rather than strategic or operational insight. The data may not be interpreted and presented in a timely manner. The data shared with the board may be selective or skewed. And employees who complete these surveys may not feel safe to provide honest answers, nor represent the whole workforce.

Board access to timely, reliable, and insightful information may require different channels of communication to avoid filters and eliminate bottlenecks. Likewise, different layers of information – for example, employee sentiment versus operational insight – require different evaluation methods. These processes might not always fit neatly into committee silos.

What, then, might a robust program for employee insight include?

- Deeper-level employee engagement surveys that include strategic and operational content and more timely reviews of survey results.
- Stratified reports containing comparable data.
- Routine board updates on workforce insight from management.
- Mechanisms for board-worker engagement so that directors can gain unfiltered employee insight on operational improvements or risks to the business.[16]
- A board dashboard of key human capital concerns and employee sentiment to centralize and institutionalize reviews of the relevant data.
- Systems of accountability to ensure company commitments to employees are met.
- Employee advisory councils that provide direct input to the board of directors.[17]

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[15] Wilkie, D. (2018, January 5). *Employee engagement surveys: Why do workers distrust them?* Society for Human Resource Management.
[16] Director-employee interactions must be designed so that they do not violate U.S. Labor Law. Such interactions cannot involve bargaining or negotiating on behalf of employees.
[17] See *Why You Should Create a "Shadow Board" of Younger Employees*. Gucci's "shadow board," outdoor retailer REI's Compass Group, and Body Shop's Youth Collective offer different models. In the United States, employee advisory councils or shadow boards must be carefully structured so that they do not violate the National Labor Relations Act.

3 Update the skills and experience matrix for boards and leadership teams.

Recent guidance from NACD and Korn Ferry notes that nominating and governance committees bear enormous responsibility for "fostering continuous improvement in board performance."[18] One area rife with opportunity is improving the board's ability to harness workforce insight and sentiment. This necessitates composing board and senior management teams that can effectively collect and interpret employee insight, understand the context in which employees work, and oversee workforce expectations, needs, and sentiment beyond the traditional human resources model.

Korn Ferry found that CEOs will increasingly be expected to "distribute decision-making down the organization" and adapt to the expectations of a millennial and Gen Z workforce. This includes leading a workforce that wishes to be engaged and heard. They noted that, "increased complexity, continuous disruption and permanent instability" mean that "companies are becoming much harder to lead" and "the role of the CEO will increasingly become too big for one person at the top of the traditional hierarchy."[19]

Collaborative and distributed leadership models stand in contrast to top-down leadership models of the past. As corporate leadership trends towards a more shared responsibility, new skills and experience are needed on both senior leadership teams and boards. Much like cybersecurity knowledge emerged as an important boardroom asset, expertise and comfort with distributed leadership, human capital concerns, and employee engagement will be important additions to the new matrix for an optimal board. To achieve true diversity of thought, skills, and perspective, nominating committees should think creatively and broaden their view of human capital expertise beyond traditional HR.[20] While American workers are not typically enfranchised to elect directors, boards can consider what kinds of directors will have credibility with the workforce and ask probing questions about worker well-being.

Nominating committees might seek out leaders from companies known for having an empowered workforce. Candidates with a track record of engaging directly with the workforce on strategic and operational priorities or leaders with backgrounds and experience in labor economics, labor relations, sociology, and organizational culture are newly relevant. Diverse life experiences may be helpful for reading employee sentiment and insight in different ways. As Korn Ferry noted, "Boards will need a variety of new skills and experience to meet the moment. They will need to embrace the transformative power of inclusion as the driver of innovation, incorporating different lived experiences in all aspects of what they do."[21]

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[18] NACD & Korn Ferry. (2023, May 16). *NACD and Korn Ferry release nominating and governance committee blueprint with key guidance on five core themes as part of the future of the future of the American Board Initiative*. [Press release].
[19] Korn Ferry. (2020). *CEO for the future*.
[20] Some common workplace concerns arise from dissatisfaction about HR policies and procedures. Further, a 2022 Edelman survey suggests that trust in heads of Human Resources is low across non-managers, managers, and senior managers.
[21] Korn Ferry. (2020). *CEO for the future*.

What about human capital data?

When engaging in discussions about human capital, boards may find themselves reaching for better employee-level data. While this is an important step, employee-level data should be considered a supplement – not a substitute – for more direct employee engagement and dialogue.

Labor costs are typically the largest operating expense for any company. This alone suggests that human capital is a material factor for audit and risk oversight and asset allocation. Investors are demanding more disclosure on human capital issues, and the SEC is poised to clarify minimum human capital disclosure standards. Unfortunately, human capital data collection is weaker and less reliable than financial data at many companies. Translating human capital data into meaningful balance sheet insight is even harder. Deloitte has noted that ROI on labor costs "are typically unknown."[22]

Audit committees face significant challenges with no easy solutions. Traditional accounting and reporting frameworks treat labor as an expense but not an asset, and new standards are still being formulated. In the absence of comprehensive standardized tools, audit committees will need to select or adapt existing models to their company or innovate new models.

To start, several existing human capital data regimes can help.

- *Mandatory EEO-1 reports are required of all private sector employers with more than 100 employees in the U.S. and are submitted to the Equal Employment Opportunity Commission annually. EEO-1 reports provide a snapshot of the company's diversity by various demographic categories and job categories.*
- *Prior to their consolidation into the International Sustainability Standards Board (ISSB), the Sustainability Accounting Standards Board's (SASB) human capital reporting dimensions encompassed employee health and safety, employee engagement, diversity and inclusion, and labor practices.*
- *The Workforce Disclosure Initiative in the United Kingdom surveys companies on workforce composition, stability, training and development, and engagement.*
- *The Human Capital Management Coalition (HCMC) of investors, representing over $8 trillion in assets, has pressed companies to disclose data on four basic human capital factors that provide a useful new baseline for human capital data: total workers, total cost of workforce, turnover, and diversity. According to HCMC, "these four metrics work together to help investors evaluate a company's human capital management skill and identify risks and opportunities."*[23]

Discerning the material links between human capital and financial value creation is an important next frontier for corporate oversight and smart long-term investing. Better employee-level data is just the beginning, as information about the workforce is different than insight from the workforce. Human capital data can provide a window into the workforce and company culture, but surveys should not be confused with real employee voice.

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[22] Bingham, K., Tapp, D., Molina, J., Chen, Y., & Fuchs, M. (2020, July 14). Human capital balance sheet: Blog no. 1. *Deloitte Capital H: Human Capital Blog*.
[23] Human Capital Management Coalition. (n.d.) *Foundational human capital reporting: Taking a balanced approach*.

Conclusion

Employee voice fills important information gaps and can improve board oversight of the company. Employees, with their direct lines of sight into operations, workplace health and safety, company culture, customer behavior and preferences, product performance, and a company's impact on the communities where it operates, are underutilized sources of strategic information.

These employee perspectives are difficult to fully appreciate at a distance. For boards to close the gap, there is no substitute for receiving and processing employee insight clearly and in a timely manner. It will require profound shifts in the boardroom – shifts in mindset, skills, tools, and board structure.

The pressure to heed employee voice will only increase. Generational turnover in the workforce is shifting employee expectations of their employers. Employees are on high alert about the impacts that new technology will have on their jobs. Philosophical shifts in management like the commitment to "stakeholder capitalism" invite hard questions from employees about where they are prioritized relative to other stakeholders and about how boards can credibly oversee stakeholder concerns within a structure built to prioritize shareholders.

A growing number of boards understand the challenges and opportunities associated with incorporating employee voice. According to the Deloitte 2023 Global Human Capital Trends survey, "the vast majority of business leaders (87%) believe that developing the right workplace model is important or very important to their organization's success. Yet only 24% feel their organization is very ready to address this trend."[24] New and innovative governance tools, management practices, and data – such as the recommendations outlined in this report – are all needed to meet the current moment.

A new era of employee voice has arrived. The reward for boards that get the transformation right will be better board oversight and company performance.

[24] Kamen, M., Mahoutchian, T. & Paynter, N. Activating the future of workplace. *New Fundamentals for a Boundaryless World: 2023 Global Human Capital Trends Report* (pp.23-28). Deloitte.

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