



Companies' reported workforce-related risks not backed by data

Listed companies in the UK are failing to provide data on workforce-related principal risks that they themselves have identified, analysis by PIRC has found.

PIRC reviewed the annual and sustainability reports issued by FTSE All-Share companies for reporting on three key workforce-related principal risks: Labour Retention and Recruitment, Health and Safety, Labour Disruption. Whilst many companies did identify one or more of these as principal risks, this was often not supported with data, making it hard for shareholders to judge the extent to which they are being effectively managed.

233 out of 388 (60%) FTSE All-Share companies listed Labour Retention and Recruitment as a principal risk. But of these, only 55 (24%) provided any data on turnover rates. Without this data, there is very little empirical evidence for investors to see whether the company making progress on the issue.

For the 121 companies (32%) that listed Health and Safety as a principal risk, the proportion that provided data is significantly better, at 79%. But it is still concerning that a significant minority did not disclose any safety metrics at all, making it difficult for investors to assess how effectively the safety risk is being addressed.

Only 1% of companies identified Labour Disruption or Industrial Relations as a principal risk, which is perhaps surprising given the upsurge in industrial action in 2022. According to the Office for National Statistics, 369,000 private sector working days were lost to strike action in October 2022 – the most since disaggregated data was first reported in 1996.

The Financial Reporting Council states that “Information on how the principal risks are managed is important to shareholders when making resource allocation decisions and assessing management’s stewardship.” However, as there is often no disclosure of related data, investors and other stakeholders have no way to assess what progress, if any, is being made in mitigating these risks.

PIRC has also highlighted that in some cases workforce data may point to a risk that is not prioritised by companies. For example, a number of companies reported a high turnover rate (greater than 20%) but did not list labour recruitment/retention as a principal risk.

PIRC has laid out the following recommendations for companies to address this reporting gap:

- Where companies have identified workforce principal risks they should provide supporting data.
 - For Labour Retention and Recruitment, companies should disclose turnover, in as much granularity as is practical.
 - For Health and Safety, companies should disclose safety data along with an explanation of why disclosed metrics have been chosen.
 - For Labour Disruption or Industrial Relations, companies should disclose information on union relations, including collective bargaining coverage, density, and the unions with whom the company has a relationship.

- Companies should ensure that principal risk disclosure reflects all the major workforce-related principal risks faced.
 - Where companies have high turnover, we would expect to see commentary in the annual report and for boards to consider its inclusion as a principal risk
 - Where companies have faced sanction by the HSE we would expect to see commentary in the annual report and for boards to consider its inclusion as a principal risk
 - Where companies have, or expect difficult industrial relations we would expect to see commentary in the annual report and for boards to consider its inclusion as a principal risk

More information:

Principal risk is defined by the Financial Reporting Council (FRC) as “A risk or combination of risks that can seriously affect the performance, future prospects or reputation of the entity. These should include those risks that would threaten its business model, future performance, solvency or liquidity.”

PIRC analysed 338 FTSE All Share companies, excluding investment trusts.

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