

Commissioning Letter

I.F.F. Research Ltd
5th Floor, St Magnus House,
3 Lower Thames Street
London,
EC3R 6HD

Wednesday, 10 April 2019

Dear Sirs,

BEIS Research and Evaluation Framework Agreement – Lot 1
Employee Perceptions of Governance Reform
CR19027

Thank you for your response to the Specification for the above commission by the Department for Business, Energy and Industrial Strategy (BEIS) (the Customer) through the BIS Research and Evaluation Framework dated 2 January 2016 between (1) Secretary of State for Business, Innovation and Skills; and (2) I.F.F. Research Ltd (the Framework Agreement).

Appendix: A. Specification for Employee Perceptions of Governance Reform
Appendix: B. Tender dated 29th March 2019

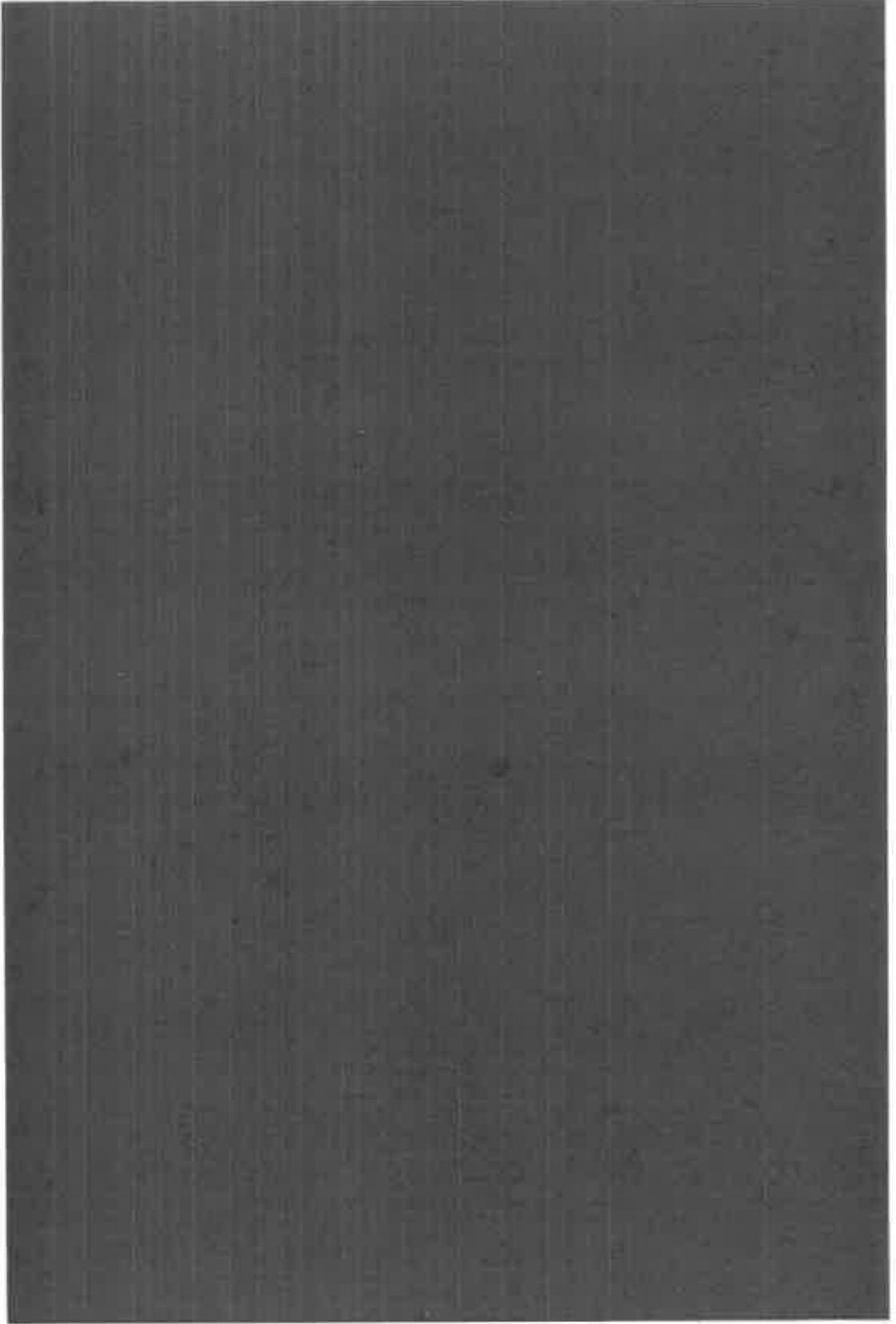
Annex: A. General Data Protection Regulations (GDPR)

The Department for Business, Energy and Industrial Strategy (BEIS) accepts your Tender (Annex B), submitted in response to our Specification (Annex A).

The Call-Off Terms and Conditions for this Contract are those set out in Schedule 5 to the Framework.

The agreed total charges for this assignment are **£ 74,994.46** exclusive of VAT which should be added at the prevailing rate, as detailed below;

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The agreed invoice schedule is as follows:

All invoices should be sent to finance@services.ukhsa.nhs.uk or Billingham (UKSBS, Queenway House, West Product, Billingham, TS23 2NF). A copy of the invoice should be sent to [REDACTED].

You are reminded that any Customer Intellectual Property Rights provided in order to perform the Services will remain the property of the Customer. The following deliverables have been agreed:

The Services Commencement Date is Thursday, 11th April 2010

The Completion date is Friday, 30th August 2010

The Contract may be terminated for convenience by giving 30 days' notice in accordance with clause 30 of the Call-off Terms and Conditions.

Your invoice(s) for this work must include the following information:
Commission number: CR19027

The Authorised Representative for this Commission will be [REDACTED] who can be contacted at [REDACTED]

Until the date of publication, findings from all Project outputs shall be treated as confidential. Findings shall not be released to the press or disseminated in any way or at any time prior to publication without approval of the Department.

This clause applies at all times prior to publication of the final report. Where the Contractor wishes to issue a Press Notice or other publicity material containing findings from the Project, notification of plans, including timing and drafts of planned releases shall be submitted by the Contractor to the Project Manager at least one week before the intended date of release and before any agreement is made with press or other external audiences, to allow the Department time to comment on factual accuracy. All Press Notices released by the Department or the Contractor shall state the full title of the research report, and include a hyperlink to the Department's research web pages, and any other web pages as relevant, to access the publication.

This clause applies at all times prior to publication of the final report and within one month from the date of publication. Where the Contractor wishes to present findings from the Project in the public domain, for example at conferences, seminars, or in journal articles, the Contractor shall notify the Project Manager before any agreement is made with external audiences, to allow the Department time to consider the request. The Contractor shall only present findings that will already be in the public domain at the time of presentation, unless otherwise agreed with the Department.

Congratulations on your success in being selected to undertake this Commission.

Version 1.2

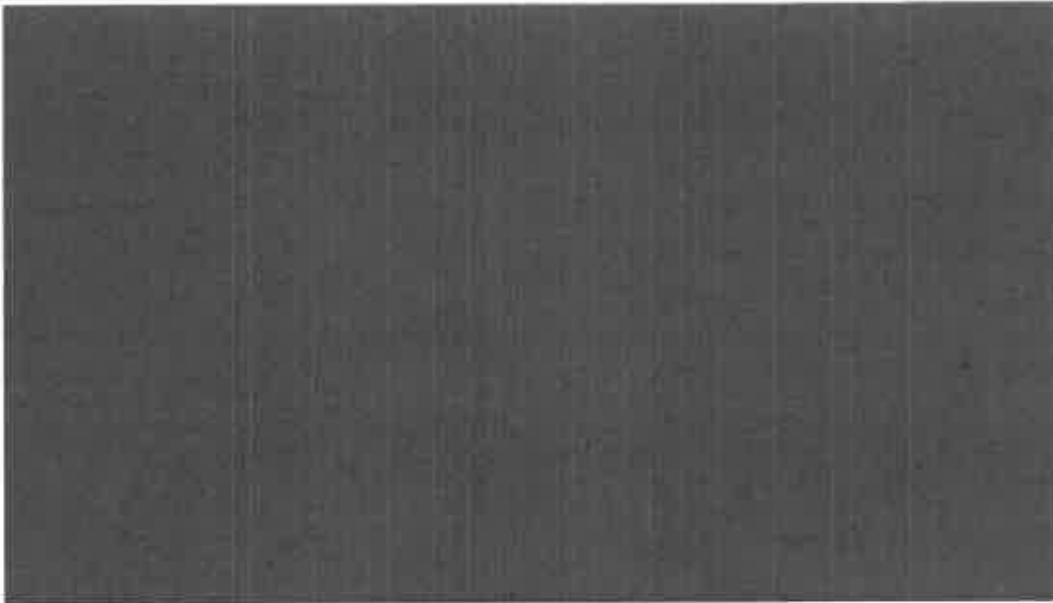
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Yours sincerely

[REDACTED]

UK Shared Business Services Ltd

BY SIGNING AND RETURNING THIS COMMISSIONING LETTER THE SERVICE PROVIDER AGREES to enter a legally binding contract with the Customer to provide to the Customer the Services specified in this Commissioning Letter and Annexes incorporating the rights and obligations in the Call-off Terms and Conditions set out in the Framework Agreement.



- Appendix A - Specification

1. Background

The Companies (Miscellaneous Reporting) Regulations 2018 will come into effect for companies meeting specified requirements and apply to reporting on financial years starting after 1 January 2019.¹ It requires new reporting on various corporate governance issues, including directors' duties to report on how their decision-making affects the environment and community, business relationships across stakeholders, and to long-term consequences of decisions.

A centrally important aspect of the regulations focuses on employee engagement. In their directors' reports, qualifying companies must summarise how directors have engaged with employees and considered their interests, and how this has affected decision-making.

Non-legislative reforms also feature in the package of changes. The UK Corporate Governance Code 2018 introduced by the FRC and to come into effect on 1 January 2019 provides for the following for companies with a premium listing, on a 'comply or explain' basis:²

The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making. The board should keep engagement mechanisms under review so that they remain effective. For engagement with the workforce, one or a combination of the following methods should be used:

- a director appointed from the workforce;
- a formal workforce advisory panel;
- a designated non-executive director.

If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

The Companies (Miscellaneous Reporting) Regulations 2018 also concern pay ratios. Quoted companies with >250 employees must also publish the ratio of their CEO's total remuneration (the Single Figure of Total Remuneration, or STFR) to the equivalent remuneration of their UK employees, at the median and the 25th and 75th percentiles. They must explain changes to these ratios over time and whether the median ratio is viewed as being consistent with the company's policies on employee pay. This is on the back of evidence of concern about levels of executive pay and the tendency for the wider public to underestimate the gap between employee and CEO pay.

Prior to these regulations coming into effect, the Companies Act (2006) provides for a triannual pay policy and an annual remuneration report but does not require such transparency around pay nor the levels of employee engagement specified in the reforms.

The corporate governance reforms are being put into place to address corporate excesses and short termism that might undermine the interests of wider stakeholders, including employees. In doing so, the reforms seek to increase trust in business in the UK and maintain the strong reputation of the UK's framework of corporate

¹ The Companies (Miscellaneous Reporting) Regulations 2018 Q&A, <https://www.gov.uk/government/publications/corporate-governance-new-remuneration-regulations>

² 'Comply or explain' means that companies must provide a clear justification for non-compliance with the Code, so shareholders can assess whether they are content with the company's alternative approach. The UK Corporate Governance Code 2018 is available at: <https://www.frc.org.uk/directors/corporate-governance-uk-standards/uk-corporate-governance-code>

governance, attracting investment.

2 Aims and Objectives of the Project

We propose to undertake baseline survey research of a representative sample of the labour force in listed firms qualifying for two key reforms: the requirement to establish a means of board engagement with employees, and the introduction of pay ratios, prompted by the following regulations respectively:

- Changes to the UK Corporate Governance Code 2018
- The Companies (Miscellaneous Reporting) Regulations 2018

The research aims to understand existing mechanisms for board engagement in use, and workers' perceptions about their boards, before the requirements of the reforms need to be fully met.

Full compliance should be reported on by the end of the financial year *starting* after 1 January 2019, so for UK firms the relevant reporting should occur with respect to end of the financial year on 30 April 2020. Research in the first half of 2019 may pick up on some changes made ahead of time, but full implementation will take some time to be embedded. (This explains the ambitious timetable for the work, so bidders are required to specify how they will accommodate this and what contingencies they will put in place should there be delays.)

The proposed research will look to understand the degree to which employees report that they are approached by their boards and remuneration committees and feel informed and engaged; how far executive pay is perceived to be something remote and out of control; whether employees feel involved in the decision making of the company; and whether employees feel perks have been scrapped at the same time as starting to receive a higher wage, to test for a substitution effect. Employee perceptions will be viewed in tandem with consideration of the *actual* steps put in place to encourage board engagement - how far are employees familiar with these attempts?

The ambition will be to repeat the research, with appropriate amendments to directly understand effects of the implementation of the reforms, in approximately three years (2022). This will enable comparison of perceptions before and after full implementation and test for differences in levels of engagement, trust, and perceptions around executive pay.

The work will provide evidence around whether a major stakeholder—the company's workforce—feels their interests are being met. This has implications on trust in business and the reputation of corporate governance in the UK. It will supplement monitoring work BEIS is undertaking around other areas of the reforms to answer decisively, after the repeated wave of the research in approximately three years, whether the reforms are working or if they need amendment.

The survey is proposed to include the following range of questions:

- Are workers currently engaged by their boards or remuneration committees? If so, how, when, and what are their perceptions of them? Are workers aware of existing ways in to attempt to encourage board engagement?
- Do workers feel informed about the activities of their boards?
- Do workers feel that the decisions of boards are transparent?
- How involved do workers feel in the decisions of their boards?
- Do workers feel they have a stake in their company?

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- Do workers trust their boards?
- Do workers think that pay dispersion is fair?
- Do workers understand the various ways in which their executives are remunerated (in a later study this can specifically address pay ratios, including understanding of calculation)?
- Do workers feel they can influence executive pay?
- Have workers received a pay rise recently? If so, what percentage increase?
- Have workers had any perks withdrawn from their remuneration package? If so, did this occur at a similar time to a pay rise?

It is predicted that cognitive testing and the subsequent findings from the core fieldwork may suggest that employees have limited awareness of board behaviour or find the topics remote. However, as baseline findings these results are interesting rather than necessarily being a flaw with the questions, as increasing board visibility and worker awareness of board behaviour is a goal of the corporate governance reforms.

