

HOW BOARDS CAN ENGAGE INVESTORS ON HUMAN CAPITAL MANAGEMENT

By Deborah Beckmann and Blair Jones

BOARDS INCREASINGLY RECOGNIZE THE

importance of human capital as critical to the growth and sustainability of the company. Leading boards move beyond a reactive stance. Rather than seeing human capital management (HCM) only as risk management, directors can frame it as a strategic opportunity.

Investors are eager to understand how companies can improve HCM amid the Great Resignation and the need for diversity. Boards can communicate how describing their company's talent strategy and substantive actions to explain these efforts creates a competitive advantage. As companies disclose more about their HCM practices in the newly required 10-K disclosures, proxy statements and dedicated HCM reports, boards should prepare for targeted discussions during investor outreach.

Until recently, most boards focused on their legal and regulatory obligations, which did not include company-wide and stakeholder-related HCM issues. Boards are now broadening their oversight to capitalize on the criticality of more diverse, equitable and inclusive organizations—and strong organizational culture. An increasing number of boards have formally expanded the charter and agendas of the compensation or other committees. Below, we offer questions in seven areas that boards and committees should consider for this new area of investor engagement.

1. Oversight and Strategy

- How does the board understand, measure and oversee HCM? Where does HCM fit into the company's overall strategy?
- Is the board fully engaged with management on the planning and execution of HCM priorities?
- Is the board regularly reviewing HCM dashboards to monitor progress on key HCM metrics [e.g., attrition, hiring, values, leadership and training, diversity, equity and inclusion]?

2. Employee Value Proposition

- What is the company's distinct value proposition for employees?

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- What unique programs does the company have to provide for its employees' wellbeing?
- How does the company communicate the employee value proposition and related programs to employees to ensure the programs are utilized and appreciated?

3. Culture and Engagement

- How does the company define its culture and values?
- Does the company regularly survey employees on culture and engagement? Are these results regularly shared with the board? How are gaps identified and addressed?

4. Diversity and Pay Equity

- What programs does the company have to foster a diverse workforce? Is it making appropriate progress?
- If not, what is the company doing about it? Does the board get regular reporting?

5. Future of Work

- How is the company building a talent pipeline for the future and identifying skills gaps for the current workforce?
- Is it partnering with schools and training programs? How is it addressing rising preferences for flexibility?

6. Communication

- How does the company disclose the importance of HCM? Is it doing only the required SEC disclosures or taking the opportunity to tell the full story of its HCM strategy?
- How does the company communicate internally its HCM strategy and the value it places on employees?

7. Link to Compensation and Performance Management

- Does the company tie incentives—annual and/or long-term—to HCM metrics? If not, why not, and is that expected to change over the next few years?
- Does the company factor these metrics into promotion and succession decisions?

A company can differentiate itself through a strong HCM strategy and employee value proposition—for current and future employees. An effective HCM strategy can boost company culture and support sustained strong performance, while also reducing the likelihood of related shareholder proposals. Additionally, because employee welfare is a major element of ESG goals, HCM may attract ESG-oriented investment to the company.



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