

HUMAN CAPITAL MANAGEMENT DURING AND AFTER THE COVID ERA

BOARDS HAVE LONG BEEN responsible for certain key human resources decisions, most notably hiring, retaining or relieving a company's CEO. Many boards have expanded their HR responsibilities in recent years, as investors and other stakeholders demanded greater board involvement with "human capital management" ("HCM"), a broad concept that encompasses a wide range of workforce issues, including talent development, employee retention, diversity and inclusion, and corporate culture, among other things.

The attention to these issues has only grown in the wake of the Covid-19 pandemic. Companies are rightly devoting considerable resources to carefully evaluating challenging workforce issues.

In our view, the Covid era will cause many boards to enhance their HCM oversight and voluntarily disclose more about their efforts. To help directors thrive in this new environment, this article briefly describes where we have come from and where we are headed.

Increasing Investor Pressure

Some outsiders do not believe that boards have been sufficiently involved in overseeing their companies' HCM activities. Calls for more effective HCM oversight started to attract attention in the summer of 2017 when a group of investors formed the Human Capital Management Coalition and asked the SEC to mandate more HCM disclosure. Others, including heavyweight asset managers like BlackRock and State Street Global Advisors, issued their own HCM guidance.

Some shareholders have gone beyond talk and moved to action, filing a number of HCM shareholder proposals. Until this year, there had been little success on those that went to a vote. Between July 1, 2016, and June 30, 2019, there were 63 such proposals at Russell 3000 companies, averaging roughly 22 percent support. In that period, three that sought employment diversity reports narrowly passed.

This year has been different. Many proposals this proxy season settled, including at least seven focused on diversity and gender equality and two others requesting disclosure of HCM metrics such as average hourly wages.

As of this writing, only three HCM proposals have gone to a vote this year. All passed with substantial support. One proposal for enhanced

diversity reporting had 61 percent of votes cast in favor. Two proposals that sought a wide range of HCM disclosure as defined by the Sustainability Accounting Standards Board (SASB) passed with 66 percent and 79 percent support, respectively. These shareholder proposal victories will not be the last; there is clearly wind in the sails of HCM proposals.

SASB Standards Take the Lead

The SEC has resisted calls for prescriptive HCM disclosure requirements. However, last August, the Commission proposed a principles-based rule that would essentially require companies to describe the material human capital resources on which management focuses in managing the company's business.

Meanwhile, the private market is moving much faster and appears to be coalescing around SASB standards. SASB's HCM standards are sector-spe-

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cific and comparable. Given the current momentum behind SASB, including the very public promotion of SASB standards by BlackRock and State Street Global Advisors earlier this year, we anticipate many more shareholder proposals asking companies to disclose this data will be filed and, if they go to a vote, most will likely pass.

Boards Devoting More Time to Talent

At many companies, HCM efforts are increasing organically, independent of shareholder pressure.

For example, EY found that half of Fortune 100 companies publicly disclosed commitments and efforts related to diversity and inclusion last year, with roughly a third of those also including some numerical diversity performance data. A meaningful number of other companies disclosed information about workforce compensation, corporate culture initiatives and workforce health and safety.

Some companies have signaled greater attention to HCM issues by changing the name of the board committee responsible for compensation. In 2019, almost 40 percent of S&P 500 companies sent such a signal, with a growing number of "Hu-

man Resources and Compensation Committees" or "Management Development and Compensation Committees," among other titles, according to Willis Towers Watson. Many other companies have added HCM responsibilities to their compensation committee charters.

The Path Forward

There was substantial momentum behind HCM before the Covid-19 crisis; the pandemic only adds more fuel to the fire. Investor and other stakeholder interest in HCM will increase in the next few years, and we suggest boards take two steps to prepare.

The first step is enhancing the dialogue about HCM in the boardroom. Asking informed questions and ensuring resources are devoted to important HR issues are valuable and appropriate tasks. Material HCM issues should be discussed with

the board or a designated committee at regular intervals, depending on their significance to the company and context.

Second, companies should be prepared for more requests to describe their HCM activities, strengths and weaknesses. Company leaders should get ahead of the issue by discussing what they might be comfortable disclosing voluntarily before shareholder demands or regulatory requirements compel them to do so.



Richard Fields, director of corporate stakeholder engagement at King & Spalding, advises boards and C-Suite executives on issues related to corporate governance.



Cal Smith is a partner with King & Spalding with decades of experience counseling directors, CEOs and C-Suite executives on strategic and governance issues.