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$2.8 TRILLION INVESTOR COALITION PETITIONS U.S. SEC TO REQUIRE INCREASED DISCLOSURE OF HUMAN CAPITAL MANAGEMENT INFORMATION

Talent management is material to company performance and profitability long term, say investors; improved reporting standards critical for decision-making.

- HCM Coalition submits a rulemaking petition to the U.S. SEC that includes nine categories to increase disclosure of human capital management information.
- Current SEC workforce reporting rules only require companies to disclose employee headcount.
- A large body of evidence links investments in human capital to better firm performance.

DETROIT, MICHIGAN—The Human Capital Management Coalition (HCM Coalition), a global group of 25 institutional investors representing over $2.8 trillion in assets, this week submitted a rulemaking petition to the U.S. Securities and Exchange Commission (SEC) urging the adoption of standards that would require listed companies to disclose information on human capital management policies, practices, and performance. The petition builds the investor case for enhanced disclosure while providing a foundation upon which the SEC can develop consistent and comprehensive standards that would allow investors to better understand and assess how well the companies they own are managing their talent. Current SEC workforce reporting rules only require companies to disclose employee headcount.

In creating a more robust reporting framework, the petition encourages the SEC to engage in a public standard-setting process that seeks input from all investors, the business community, and other stakeholders and interested parties.

“As institutional investors and asset managers, members of the HCM Coalition have a vested interest in ensuring that the companies in which we invest are positioned for sustainability and growth over the long-term,” said Meredith Miller, Chief Corporate Governance Officer for the UAW Retiree Medical Benefits Trust. “The ability to effectively harness and apply the collective knowledge, skills, and experiences possessed by each individual in the workforce is essential to long-term value creation and is therefore material to investors evaluating a company’s future performance. Current disclosures leave investors with an incomplete picture of how well companies are seizing opportunities and managing risks.”

The petition does not define specific metrics for reporting; instead, the petition offers nine broad categories of information deemed fundamental to human capital analysis as a starting point to dialogue: workforce demographics; workforce stability; workforce composition; workforce skills and capabilities; workforce culture and empowerment; workforce health and safety; workforce productivity; human rights; and workforce compensation and incentives. The HCM Coalition expects that specific data points will be developed as part of the rulemaking process, acknowledging that the relevance and applicability of some metrics may vary between industries and companies in the same industry.

"Workers are the bedrock of every successful company and the lifeblood of our economy. Talent is everything, and investors need to know how companies are managing their employees and whether they're quality, hospitable, and safe places to work," New York City Comptroller Scott M. Stringer said. "Human capital management matters. Today we're taking the first step and starting that conversation."

A large body of empirical evidence underscores the link between the effective management of human capital and better corporate performance across a number of metrics. Research has shown that investments in training and development, health and safety, employee engagement, diversity and inclusion and workforce composition and staffing are associated with increased workforce productivity, reduced turnover, and higher customer satisfaction. Academic studies and literature reviews from Harvard,[1] The Wharton School,[2] and MIT,[3] among others, also report evidence that better human capital management practices are associated with higher shareholder returns, profitability and overall firm performance against benchmarks.[4]

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[1] The majority of the 92 studies reviewed by the Harvard Law School Pensions and Capital Stewardship Program found that human capital management policies were associated with better financial performance using metrics of value to investors, such as total shareholder return, return on assets, return on capital, profitability, and Tobin's Q. See Aaron Bernstein and Larry Beeferman, "The Materiality of Human Capital to Corporate Financial Performance," Pensions and Capital Stewardship Project, Labor and Worklife Program, Harvard Law School, Apr. 2015.

[2] Investing in a value-weighted portfolio of companies in the Fortune 100 America's Best Companies to Work For from 1984 through 2009 generated excess risk-adjusted returns of 3.5% per year. See Alex Edmans, "Does the Stock Market Fully Value Intangibles," Journal of Financial Economics, Vol. 101, 621-640 (2011), at 621 (http://faculty.london.edu/aedmans/Rowe.pdf).

[3] High-performing retailers use cross-training to provide flexibility and address variability in demand—thus better satisfying customers—without resorting to practices like last-minute ("just-in-time") scheduling and extremely short shifts that lead to higher turnover and lower motivation. Conversely, cutting labor hours—a common strategy among retailers looking to control expenses—often backfires in the form of reduced profitability. See Zeynep Ton, The Good Jobs Strategy (2014).

[4] E.g. Mark Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," Academy of Management Journal, at 645-47 (1995), at 658-659 (http://www.markhuselid.com/pdfs/articles/1995_AMJ_HPWS_Paper.pdf) (High performance workplace practices are associated with lower turnover as well as better productivity and firm financial performance, including increases in Tobin's Q and gross rate of return on capital); Laurie Bassi & Dan McMurrer, "Human Capital Management Predicts Stock Prices," at 1 (June 2010) (http://mcbassi.com/wp/resources/documents/HCMPredictsStockPrices.pdf) (Two portfolios of large-capitalization companies created using criteria related to training and employee development outperformed the S&P 500 on an annualized basis by at least 3.1%); and Aon Hewitt, "2015 Trends in Global Employee Engagement," at 4 (2015) (http://www.aon.com/attachments/human-capital-consulting/2015-Trends-in-Global-Employee-Engagement-Report.pdf) (A 5% increase in employee engagement leads to a 3% increase in revenue growth the following year).

Conversely, poor human capital management practices can create substantial risks for investors, including reputational and legal risks that can lead to depressed financial performance.

"Human capital management, done well, means investing in people in ways that allow them to develop and apply their talents to the organization," said Tim Goodman, Director, Hermes EOS. "A company that treats human capital as a vital asset, instead of a cost to be minimized, is not just a good corporate citizen – it is a good investment."

Investors believe the current SEC reporting system presents a critical information gap. Information that could help investors evaluate how well a company manages its workforce generally is not required in the U.S. markets and therefore can be hard to come by. Workforce-related disclosures mandated by the SEC are limited to employee headcount, preventing investors from gathering even basic information such as the amount of money a company spends on its workforce per year.

"Companies that treat their workers fairly perform better over the long-run," said Illinois Treasurer Michael Frerichs. "They experience increased workforce productivity, reduced turnover, and higher customer satisfaction. As such, investors – like my office – have a real interest in knowing how companies support and strengthen their workforce. This proposal provides the transparency needed so investors can ensure that their dollars are invested in companies with smart, fair, and sustainable work environments."

Visit HCM Petition to view the petition. A copy of the Petition will be posted at the SEC Rulemaking Petition Page under File No. 4-711 at https://www.sec.gov/rules/petitions.shtml.

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The HCM Coalition has nine founding members (starred below) and is led by the UAW Retiree Medical Benefits Trust. The Coalition members include: AFL-CIO Office of Investment; Amalgamated Bank LongView Funds*; California Public Employees' Retirement System*; California State Teachers' Retirement System; Calvert Research and Management; Connecticut Retirement Plans and Trust Funds*; CtW Investment Group*; Domini Impact Investments; Hermes Investment Management*; Office of the Illinois State Treasurer Michael W. Frerichs; International Brotherhood of Teamsters*; Legal and General Investment Management; LiUNA; Nathan Cummings Foundation; Office of the New York City Comptroller Scott Stringer*; Office of the New York State Comptroller Thomas P. DiNapoli; Ohio Public Employees Retirement System; Pennsylvania Treasury; Segal Marco Advisors; Sycomore AM; Trillium Asset Management; UAW Employees Pension and Severance Plan; UAW Retiree Medical Benefits Trust*; UFCW Pension Plan for Employees*; and Zevin Asset Management.

See Human Capital Management Coalition for more information.

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