



# Human Capital Management Coalition

## About the Coalition

The Human Capital Management Coalition (HCMC) is a cooperative effort among a diverse group of influential institutional investors to further elevate human capital management as a critical component in company performance. The HCMC engages companies with the aim of understanding and improving how human capital management contributes to the creation of long-term shareholder value.

The HCMC is co-chaired by the UAW Retiree Medical Benefits Trust and the California State Teachers' Retirement System. The Coalition includes 32 institutional investors representing \$6 trillion in assets.

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### Definition

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The HCMC defines **Human Capital** as the collective knowledge, motivation, skills, and experiences of the workforce.

The HCMC views **Human Capital Management** as encompassing a broad range of corporate practices related to the management of employees, including, but not limited to, hiring and retention, employee engagement, training, compensation, fair labor practices, health and safety, responsible contracting, ethics, desired company culture, and diversity, both with respect to a company's direct employees and to the employees of vendors throughout the company's supply chain.

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### Objectives

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#### The HCM Coalition seeks to:

- ❖ Educate ourselves and other stakeholders about the role of HCM in company performance
- ❖ Foster an environment of open communication between asset owners, asset managers, and other key market participants on HCM as a long-term value driver
- ❖ Identify and assess company HCM practices and performance
- ❖ Engage companies about their HCM performance
- ❖ Advocate for improved disclosure of human capital management practices and key performance indicators that is consistent, complete, and comparable
- ❖ Encourage boards to take a more active role in human capital management oversight
- ❖ Elevate senior management attention to HCM

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## Rationale

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In order to protect and enhance their investments, shareholders are increasingly incorporating analyses of Human Capital Management into their overall evaluation of a company's ability to deliver long-term sustainable value. Recent empirical research demonstrating the correlation between strong HCM and shareholder returns supports this approach. A company that subverts the law or widely adopted international standards for HCM is exposed to operational, legal, regulatory, and reputational risks that may create roadblocks for both its existing operations as well as efforts to expand to other markets. Conversely, companies with strong HCM policies and practices may be at a competitive advantage in attracting and employing an effective workforce, leading to a healthy company culture, stronger customer loyalty, increased revenue, and reduced costs.

Despite the growing recognition of the importance of HCM, company disclosure regarding Human Capital Management has yet to catch up with the disclosure of financial, operational, or even environmental information. This leaves investors without the information they need to assess the risks associated with Human Capital Management. In some situations, the failure to oversee and disclose HCM key performance indicators has led to significant destruction of shareholder value, such as at Massey Energy and BP. The HCMC hopes to address such situations and believes that investor engagement with company boards and senior management can improve HCM disclosure and performance.

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## Methods

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To accomplish its objectives, the HCMC draws on well-established practices for collaborative investor engagement with corporate directors and senior executives. In this case, the engagement begins with a set of questions aimed at understanding a company's human capital management policies and practices. These questions address a number of areas of human capital management, including board oversight, operational integration, incentives and compensation structure, data collection, risk management, accountability through employee engagement, and investor engagement and disclosure.

The questions form the basis for an initial dialog between HCMC members and the company. From the dialog, HCMC members develop goals for the engagement, which might include improving disclosure of HCM key performance metrics, enhancing board oversight of HCM performance, or developing better methods for engaging employees, among others. The engagement can then take several forms, depending on the company's reaction and the investors' preferences.

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## Membership

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Membership is open by invitation to asset owners and asset managers who share the Coalition's mission. (As of September 2020, membership is closed to new members.)

Members may use the material (Description, Definition, Objectives, Rationale, Methods, and Membership) from this toolkit as needed to support internal and external communication forums including the press, public board reporting, and asset owner/manager survey or responsible investment reporting documents.

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## Contact

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Institutional investors and other market participants interested in learning more about the HCMC can reach the Coalition at [hcmc@rhac.com](mailto:hcmc@rhac.com).

All media inquiries should be directed to [media@rhac.com](mailto:media@rhac.com) and [newsroom@calstrs.com](mailto:newsroom@calstrs.com).