Insights
Asset Stewardship

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Human Capital Management Insights

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As described in our Guidance on Human Capital Management Disclosures & Practices, human capital management is an increasingly important dimension of ESG risk and opportunity for State Street Global Advisors' Asset Stewardship team. In 2021, we sought to refine our perspective on human capital management. We conducted over 185 engagements on this topic with investee companies in markets across the world, including a proactive engagement campaign targeting 60 of the largest employers in our portfolio across the Americas, EMEA, and APAC regions (see the Appendix for the list of companies engaged). What follows are suggested best practices for investee companies, in alignment with our disclosure expectations. Note that we are not offering blanket endorsements of companies' approaches to human capital management, but rather seemingly differentiated practices in a field where universal expectations, regulations, and standards are emerging.

Board Oversight

Encourage Regular Oversight of Risks and Opportunities Related to Human Capital Management

The pandemic and the global conversation on racial equity led to more frequent board meetings where human capital management and DE&I were at the top of the agenda. We also saw some companies in the US adding human resources expertise to their boards to meet the increased competition for talent. For example, **NextGen Health** recently added a Chief Human Resources Officer to its board, who brings her expertise on DE&I as well as employee recruitment and retention to board conversations on human capital management.

Regular updates from management appear to be a standard way of keeping the board abreast of people-related matters. For example, at **Compass Group** people matters are included in the CEO's review, which is presented at every scheduled board meeting. The board and its committees have direct access to, and receive presentations from, the Group Chief People Officer, Group Engagement Director, Group Reward Director and the Group Safety & Sustainability Director. Through these primary channels the board retains oversight and engagement on workforce matters including health and safety, deployment of resource, succession planning and talent development, diversity and inclusion, cultural awareness, and reward and retention strategies.

Connect Directors with Employees' Perspectives

Investors would benefit from additional insights into how boards connect with and learn from employees. For example, does the board conduct spontaneous and regular site or store visits, or do they have consistent mechanisms for soliciting employee input? For example, **Lowe's** directors routinely meet with store, regional, and district managers, and tour warehouse facilities on a regular basis. **Delta's** Board Chair meets with employee representatives quarterly to understand their concerns and ideas on a variety of topics.

Companies in Europe are more likely to describe specific and systematic mechanisms for directors to engage with employees. For example, **Tesco** has established Colleague Contribution Panels (CCPs) in the UK and Republic of Ireland, Central Europe and Asia. The aim of the CCPs, each of which is hosted by an independent non-executive director, is to enable elected employee representatives to meet a board member to ensure that employees throughout the Group are represented at board level. Similarly, **Vodafone, British Telecom, GlaxoSmithKline**, and **Compass Group** each have designated a non-executive director for workforce engagement. The directors engage with the workforce in key regions where the company operates or hosts online roundtables with employees from around the business, answer direct questions from workforce-elected representatives, and provide the board with feedback on the content and outcome of those discussions. This option allows for meaningful input from (and change for) employees across the organizations and gives them a louder voice at the board table.

Discuss Human Capital Management at the Board and in a Specific Committee

In the US, most companies described human capital management as being primarily under the purview of the Compensation Committee. In Europe, only a handful of companies discussed the role key board committees play in board oversight of human capital management. The committees most commonly referenced were the Remuneration Committee, the Audit Committee (particularly related to whistleblowing), and the Nominating and Governance Committee (regarding succession planning for executive roles). **Deutsche Post DHL AG**, the German logistics company, maintains a separate Personnel Committee at the board level. The Committee discusses the company's HR principles, leadership, culture, talent and skills, among others. The board Chairman and employee-elected board members serve on the Committee.

Strategy

Develop Human Capital Management Strategies that Advance the Long-term Business Strategy

Against the backdrop of the pandemic, a tight labor market, and the "Great Resignation," employers cannot afford to take their employees for granted. Companies are increasingly dedicating resources to attracting and retaining quality talent, which we hope is not a short-term fix but rather indicative of a more sustainable shift. As such, we expect companies to describe how their approach to human capital management advances their firm's long-term business strategy. For example, **PepsiCo** offered a clear articulation of how the company seeks to recruit and develop talent that can prepare its business for the future with more diverse customers, greater digital capabilities, etc.

For some companies, a focus on people is one of the key strategic pillars of a company's business strategy. At **Compass Group plc**, the UK contract foodservice company, people, performance, and purpose constitute the three key strategic pillars. The "people" pillar is focused on ensuring the company has an engaged and motivated workforce. Similarly, British retailer **Tesco plc** uses an employee satisfaction metric as a key people KPI in its business strategy.

Leverage Human Capital Management as a Source of Differentiation

Many companies described their human capital management strategy as an increasingly important source of differentiation. For example, **Wynn Resorts** described how its focus on engaging and supporting employees through the pandemic made it easier for the company to attract those employees back to the company after casinos were permitted to re-open, giving it an advantage over competitors who apparently struggled to attract talent. A **Target** director shared how the company's unique human resources structure, which includes having an HR staff person on the ground in every store or distribution center, was an important differentiator from competitors. **British Telecom plc** described how its apprenticeship programs provide the necessary skills to the workforce, allowing the company to remain competitive.

Adapt the Human Capital Management Strategy to Meet Shifting Market Dynamics

Nearly every company described being in an increasingly competitive environment for talent, and offering a variety of resources in an attempt to recruit and retain employees, including flexible work arrangements, mental health and other benefits, pay raises, professional development programming, and tuition reimbursements. Investors would appreciate deeper insight into how (if at all) companies are enhancing their human capital management strategies given the current labor market dynamics. For example, the Chief Human Resources Officer at **Hilton Worldwide** described how they are optimizing their application process to make it easier for candidates to find roles, including removing unnecessary educational requirements and making on-the-spot offers in high demand markets. **Walmart** has made similar adjustments to create a "frictionless" hiring process, and **Aramark**, the American food, facilities, and uniform services provider, leverages AI tools to create a better candidate experience in the hiring process.

Train your Workforce to Succeed Over the Long Term

Increasingly, companies are offering to prepare their employees for the changing skills required in the future workplace. **Nestlé SA**, the Swiss food and drink company, is raising the digital expertise of its people — it has scaled up its learning platforms and established digital academies that provide access to relevant, easy-to-consume learning materials that enable employees to acquire applicable digital skills. **HSBC Holdings plc**, the UK bank, is creating an innovative internal talent marketplace through new technology that helps improve career development by matching the skills and aspirations of company employees with business needs and opportunities.

Measure and Manage Human Capital Management KPIs

Effective integration of human capital management into a company's long-term business strategy involves measuring and managing KPIs, as is expected for any other element of a business strategy. At **IBM**, for example, business units and management teams have access to online dashboards where they can access their teams' human capital metrics, and interventions can be made in real-time. There are goals and benchmarks set, and leaders throughout the organization monitor progress and performance against those expectations on an ongoing basis. The CEO and management team review detailed metrics at least once a month, and the board reviews them at least twice a year.

Ensure that the Workforce Composition is Transparent and Aligned with the Firm's Human Capital Management Strategy

A key dimension of a human capital management strategy is the composition and scale of the workforce. Not enough companies are disclosing the total number of workers at their firm, especially broken down by full-time, part-time, and contingent labor. Spanish construction company **ACS Group SA's** disclosure is a good example of desirable level of disclosure: the company discloses the total number of its employees, broken down by full- and part-time workers, with each of these two groups further broken down by gender, age, and professional classification. The number of contractors is also provided.

The composition and structure of a company's workforce can also create and exacerbate risks. Without transparent disclosures, these risks are obscured to investors. For example, our conversations with publicly-traded hotel REITs left us unsure about our exposure to human capital risks — many of them were quick to tout the benefits of cutting labor-related costs, but seemed less concerned with any responsibility for managing employee engagement and satisfaction. Similarly, we spoke to several large franchises who want to elevate their human capital management practices but cannot do so given their lack of control over their franchisees. Finally, "gig economy" platforms and other employers that opt for a fissured workforce model might be obscuring real human capital risks and opportunities that ought to be managed more closely. We encourage companies to offer more transparent disclosure about all the people in their workforce, and consider how their business models might create risks related to workers.

Compensation

Leverage Pay Strategies to Advance the Firm's Approach to Human Capital Management

Given the state of the labor market, companies are adapting their pay strategies to entice workers to join their firms. We saw this in real time — for example, **Chipotle, Goldman Sachs,** and **McDonald's** all announced pay increases during the course of our engagement campaign. **British Telecom** announced that all eligible employees will receive an annual award of GBP 500 worth of shares, while **Sainsbury's plc**, the UK retailer, removed a performance-based bonus for hourly employees while simultaneously increasing their hourly wages — a decision made in response to the hourly employees' preference for a more stable income.

While many companies provide a general overview of their compensation programs in public disclosures, few offer insight into their approach to establishing and updating their pay strategies across the organization or how companies include human capital management-related metrics in compensation decisions. Investors are given enormous detail regarding executive compensation plans, but little, if any, disclosure when it comes to the compensation of other employees throughout the organization.

Incentivize a Focus on Human Capital Management Through Compensation

During our engagements, we asked companies how they leverage pay to incentivize employees to focus on human capital management and culture. For example, **Itau Unibanco**, a Brazilian bank, implemented a bonus structure to incentivize greater collaboration among colleagues. Teams share goals and are rewarded for achieving them together. In some markets, companies encourage their employees to benefit from corporate performance by enrolling in share ownership plans, thus further strengthening their commitment to the organization. Such is the case at **Barclays, Vodafone,** and the Belgian beer producer **Anheuser-Busch InBev SA/NV**, among others.

Voice

Employees Should Feel Engaged, Included, and Empowered At Work

Given the leverage that many workers currently have in the labor market, as well as the reality of high-profile whistleblowing incidents, strikes, and walkouts, we are increasingly focused on employee voice as a particularly important dimension of human capital management. Employees are one of the best sources to identify material ESG risks, so companies need to afford employees opportunities to raise insights and concerns, and act on this information when necessary. As pointed out by **Barclays**, employee engagement should be a two-way exercise, with equal weight placed on listening to people as well as on keeping them informed. Employees can help identify risks, and companies can also create risks for investors if they don't listen to and include their workforce. A company's people are an increasingly important asset, and if those assets leave or disparage the firm or stop production due to dissatisfaction, that can create reputational and financial risks that impact shareholders.

Find Creative Ways to Solicit Ideas and Feedback from the Workforce, and Act on their Suggestions when Appropriate

Our engagements identified employee voice and engagement as an area for innovation and improvement. We were encouraged to see the pandemic and the scourge of anti-Black violence in the US lead to increased surveying and listening sessions with employees. Some companies described how the increased use of video conferencing platforms has led to more employees sharing questions with executives in the text-based chats during company-wide calls. Italian postal service provider **Poste Italiane SA** introduced a new communication tool aimed at employee dialogue and communication — the Poste Italiane news program is broadcast daily on the corporate website and in the post offices run by the company. **HSBC** told us how it organized its first "employee jam" — a live online chat between employees in 49 countries. This online conversation ran over 72 hours and captured more than 9,500 online posts on topics including the future of work and company values.

We also learned of some executives who take a more direct approach to employee voice. For example, the CEO of **UPS** visits facilities and brings back lists of potential changes to make. The CEO of **Sysco** did a ride with a truck driver at 2am to understand firsthand the challenges and complexities of unloading, finding a parking space, etc. Other companies leverage listening sessions and focus groups to learn about employees' experiences. For example, **Starbucks** did 2,000 listening sessions with employees in 2020, and the executive leadership team participated in many of those.

However, some companies described employee voice mechanisms that were not proportionate with the materiality of human capital, such as open door policies. One large diversified retailer with a history of human capital challenges celebrated the fact that any employee can email the CEO. However, this approach to employee voice does not take into account the realities of at-will employment that make it difficult for a warehouse worker to email a CEO without fear of retaliation, for example.

Ensure Employee Surveys are Effective and Actionable

Almost all companies we spoke with utilize surveys to gauge and analyze the sentiment of their employees, with varying levels of rigor and frequency. Some conduct employee surveys only once a year or once every other year, while others survey their employees at the start of every workday. Companies we spoke to with the strongest approach to employee voice not only solicit feedback from employees, but act on that input, and incentivize managers based on it, too. For example, **CVS Health** has a thorough and rigorous survey for all its employees (designed by an employee with a PhD in organizational behavior), the results of which are translated into action plans that managers are measured against in their performance reviews. The CEO also reviews a report on employee sentiment weekly, which is generated based on informal lunch chats, town halls, etc. CVS representatives described how survey results can be leading indicators for challenges in a business unit, and that they would rather identify and address issues directly before they end up on Glassdoor or social media. The employee survey at German automaker **Volkswagen AG** includes an employee evaluation of the direct manager. Not only is the score subsequently reflected in the manager's pay, but also a manager who scores less than 80% is required to go through mandatory training.

When disclosing findings from employee engagement surveys, companies might consider offering more context beyond the percentage of employees who enjoy working there, including key insights that have emerged from surveys, and actions that have been taken in response when necessary. For example, **Magna**, a Canadian manufacturing company, shared that if 10% of feedback in employee surveys aligns on a particular theme, the company creates a focus group to investigate the item and figure out whether and how to act on it.

Some companies are leveraging technology to enhance their employee engagement surveys. For example, **Aramark** recently made a significant investment in its human capital management technology. The company has a unified backend system for all human resources metrics globally, and an upgraded survey platform enables the company to analyze customer and employee engagement and the connections therein.

Leverage Employee Networks to Solicit Input

Employee networks can be another important source of information in identifying risks and opportunities and acting on them. Most companies described partnering with Employee Resource Groups to advance racial and ethnic equity throughout their organization, identifying pain points and areas for action. **Westpac**, an Australian bank, for example, has leveraged its Employee Action Groups for ideas on retaining Indigenous employees, improving products, and reducing the number of mandatory trainings to improve employee and customer experiences. **Delta** partnered with its Latinx employee resource group to improve food offerings on its South American flights, and **Hilton Worldwide** leveraged its women's team member resource group to improve the travel experience for solo women travelers.

Disclose Employee Turnover Rates

Finally, investors would benefit from increased disclosures about turnover rates, especially given the attention companies are paying to attrition rates in the current labor market. For example, **Bank of America** included their employee engagement survey results and turnover rates for the past decade in their fall investor deck, and their team offered insightful context about the gains and setbacks during that period.

Diversity, Equity, & Inclusion

Articulate a Comprehensive Approach to Human Capital Management, with DE&I at the Center

When discussing human capital management with companies, especially in the US, many tended to steer the conversation toward diversity, equity, and inclusion (DE&I), offering the most detail and substance on this topic. This is likely due to the high-profile incidents of racism in June 2020 that led to a surge of enhanced disclosures, commitments, and practices regarding racial and ethnic equity. Companies should consider applying the same rigor and accountability to human capital management more broadly (as well as other dimensions of ESG).

Move Beyond Diversity to Equity and Inclusion

Our engagements suggested that while some companies are just beginning their DE&I journeys and focusing primarily on enhancing representation, many companies are expanding their efforts to focus on equity and inclusion. This shift is evident in Australia, for example, where the conversation is moving beyond Indigenous representation to include an understanding of how indigenous colleagues are included and empowered in the organization, and how a company's products and services can have a positive impact on marginalized communities.

Work through Data Challenges to Advance Inclusion in a Global Context

The main challenge for companies with operations outside the US is data collection, primarily because of employees' reservations towards self-identification. As we learnt during engagements, there appears to be a general lack of confidence about what the data is used for. In this context, **Tesco** offered insights into its "This is Me" campaign, which aims at demystifying the concept of self-identification. Employees are asked to voluntarily share their diversity data to help Tesco better understand the diversity of its workforce, make more informed and inclusive decisions, and put plans in place where they are needed most. This data insight allows the company to hold itself accountable for progress and track the success of interventions, and will enable Tesco to participate in future legislative and voluntary reporting.

UK pharmaceutical company **GlaxoSmithKline plc** offers exemplary disclosure of racial and ethnic diversity of its workforce in the US and the UK. In 2020, the board-level Corporate Responsibility Committee considered a proposal for greater transparency of employee race and ethnicity data and aspirations in 2021, which supports the company's aspiration to increase the percentage of its leaders who identify as racially and ethnically diverse. As part of its broader efforts in the area of race, ethnicity and gender, this proposal was consistent with GlaxoSmithKline's approach to inclusion and diversity, which focuses on ensuring its workforce reflects communities in which the company operates. Consequently, the board agreed to report employee race and ethnicity data and to more detailed external disclosure of US and UK data and specific aspirational targets for delivery by the end of 2025.

But companies are pursuing diversity programs regardless of the data constraints. For example, at **Standard Bank**, a South African company that has operations across different countries in Africa, offices in different countries have the freedom to develop diversity frameworks and targets that are based on local demographics. The company aims to employ individuals who reflect the diversity of Africa's people, and takes a local approach to achieving this goal. **JBS**, a Brazilian food company, offers training programs for employees from minority communities and for people with disabilities to help them advance in their careers, including personalized career plans.

EssilorLuxottica SA, the Italian-French eyewear company, told us that in France, people living with disabilities represent close to 6% of its employee population, and 22 of them lead the deployment of the disability policy and advise employees with disability. The company works with partners who provide additional workplace support to those living with a disability who are unable to work in a traditional environment. These partners are either a supplier of traditional services or offer the provision of employees on EssilorLuxottica's sites. **Carrefour SA**, the French retailer, is training some of its in-store staff in French sign language to offer the best possible experience to its deaf and hard-of-hearing customers, and has introduced a silent hour once a week at its supermarkets for people with autism to do their shopping in more suitable conditions.

Conclusion

Human capital is a material risk and opportunity for companies across all industries. We are hopeful that the increased emphasis on effective human capital management since the beginning of the pandemic — including more regular opportunities to solicit employee input and more frequent board-level discussions on human capital management challenges — will be implemented permanently going forward. Please reach out to the State Street Global Advisors Asset Stewardship Team at GovernanceTeam@ssga.com with any insights or invitations to engage on this essential topic.

Appendix A: Companies Engaged as Part of Targeted Human Capital Management Campaign

Company Name	Market	Sector
Australia and New Zealand Banking Group	Australia	Banks
Commonwealth Bank of Australia	Australia	Banks
National Australian Bank	Australia	Banks
Westpac Banking	Australia	Banks
Woolworths Group	Australia	Food & Staples Retailing
Anheuser-Busch InBev	Belgium	Food, Beverage & Tobacco
Itaú Unibanco Holding	Brazil	Banks
JBS	Brazil	Food, Beverage & Tobacco
Magna International	Canada	Automobiles & Components
Carrefour	France	Food & Staples Retailing
Volkswagen	Germany	Automobiles & Components
EssilorLuxottica	Italy	Capital Goods
Poste Italiane	Italy	Insurance
ACS	Spain	Capital Goods
Telefonica	Spain	Telecommunications
Nestle	Switzerland	Food, Beverage & Tobacco
Barclays plc	UK	Financials
BT Group plc	UK	Communication Services
Compass Group plc	UK	Consumer Discretionary
GlaxoSmithKline plc	UK	Health Care
HSBC Holdings plc	UK	Financials
J. Sainsbury plc	UK	Consumer Staples
Tesco plc	UK	Consumer Staples
Unilever plc	UK	Consumer Staples
Vodafone Group plc	UK	Communication Services
Amazon	US	Consumer Discretionary
Aramark	US	Consumer Discretionary
AT&T	US	Communication Services
CBRE Group	US	Real Estate
Cognizant Technology Solutions	US	Information Technology
CVS Health	US	Health Care
Exelon	US	Utilities
Exxon Mobil	US	Energy
FedEx	US	Industrials
HCA Healthcare	US	Health Care
Home Depot	US	Consumer Discretionary
International Business Machines	US	Information Technology
Kroger	US	Consumer Staples
PepsiCo	US	Consumer Staples
Sherwin-Williams	US	Materials
Starbucks	US	Consumer Discretionary
Target Corporation	US	Consumer Discretionary
United Parcel Service	US	Industrials
UnitedHealth Group	US	Health Care
Walgreens Boots Alliance	US	Consumer Staples

Company Name	Market	Sector
Walmart	US	Consumer Staples
Walt Disney	US	Communication Services
Wells Fargo	US	Financials

Appendix B: Questions for Human Capital Management (HCM) Engagements

Board oversight:

How does the board oversee HCM practices and risks?

Strategy:

- How does effective HCM advance your firm's overall long-term business strategy?
- How does your approach to HCM give your firm a competitive advantage?
- Which HCM-related indicators are you using to measure your firm's strategic success?

Compensation:

- How do your pay strategies throughout the organization advance your long-term HCM strategy?
- How is a focus on HCM and corporate culture incentivized for employees at all levels of the organization?

Workforce empowerment & engagement:

- Please describe opportunities for employees to voice concerns to management and the board.
- What are some of the key risks or opportunities that your employees have identified?
- Please share an example of a concern or idea that came from employees and how it was addressed by management and the board.
- What is your relationship to organized labor?
- Which metrics are you most focused on when assessing employee engagement and empowerment?

Diversity, equity, & inclusion:

- Which dimensions of diversity, equity, and inclusion are most material to your company?
- What commitments have you made or are you considering to enhance your alignment with our disclosure expectations?
- What best practices have you established related to oversight and disclosure of diversity and inclusion?

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- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 30 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's fourth-largest asset manager* with US $3.86 trillion† under our care.

*Pensions & Investments Research Center, as of December 31, 2020.
† This figure is presented as of September 30, 2021 and includes approximately $59.84 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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