

HCM Disclosure Reaches Tipping Point

- **Massive shift in support level for proposals seeking HCM disclosure**
- **Well-crafted proposals that seek HCM disclosure, particularly disclosure of metrics vetted by SASB, expected to proliferate in number and support next year**

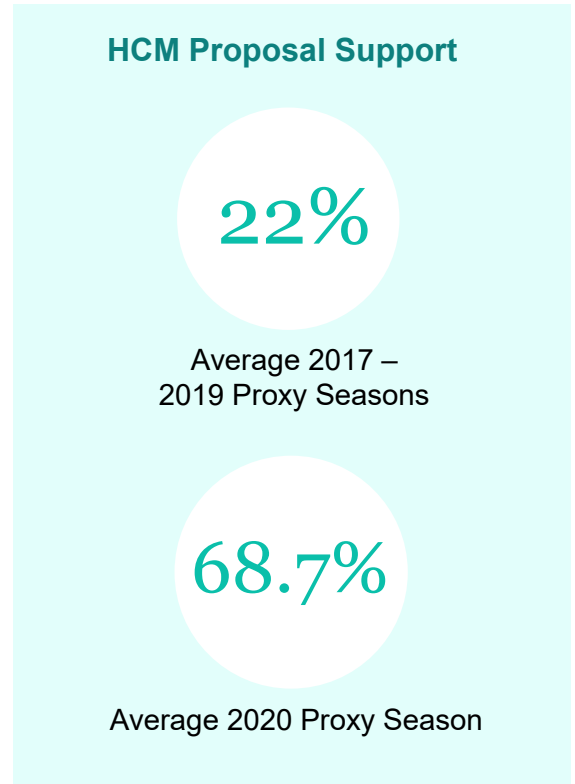
Many boards have devoted additional time to human resources in recent years as investors and other stakeholders have demanded greater board involvement with “human capital management” (“HCM”). HCM is a broad concept that encompasses a wide range of workforce issues, including talent development, employee retention, diversity and inclusion, and corporate culture, among others.

Attention to these issues internally and externally has only grown this year, spurred first by COVID-19 and more recently by discussions of racism, diversity, and equality. Some stakeholders that had been reluctant to aggressively seek more information about HCM oversight—including some of the world’s largest asset managers—have left the sidelines.

Voting results on HCM-related shareholder proposals demonstrate this shift. 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% support. In that period, only three passed.

This year has been different. Many HCM proposals this proxy season have settled, including at least seven focused on diversity and gender equality and two others requesting disclosure of metrics such as average hourly wages. In the last few weeks, shareholders voted on the first three HCM proposals that made it to the annual meeting. All passed with substantial support. One proposal for enhanced diversity reporting at Fastenal passed with 61% of votes in favor; two proposals seeking a wide range of HCM metrics as defined by Sustainability Accounting Standards Board (SASB) passed with overwhelming support at O’Reilly Automotive (66%) and at Genuine Parts Company (79%).

COVID-19 has thrown more fuel on an already roaring fire. Expect more pressure for disclosure of additional HCM-related data and for shareholders to devote more engagement time to workforce oversight issues.



KEY QUESTIONS FOR BOARDS

- How often does our board currently review human capital management principles or metrics?
- Given the current focus on racial disparities, what are the current disparities in racial composition and compensation throughout our organization? In our leadership roles?
- If currently undisclosed HCM metrics were obtained by the media, what would the most critical headline be?