

Human Capital Management Disclosure: Lessons Learned and Future Approaches

A Compensation Committee Series Webinar
Presented by NACD and Pearl Meyer

May 27, 2021

Meet the Presenters



Libby Sartain is now an independent director and active business advisor after a distinguished 40-year career in human resources. As CHRO of both Yahoo! and Southwest Airlines, Sartain led significant business transformation initiatives. Both Yahoo! and Southwest were listed on the Fortune 100 Best Companies to Work for in America and the Fortune 500 during her tenure. Sartain is a director of ManpowerGroup and AARP and chairs the SHRM Foundation and the AARP Foundation. Sartain was named a fellow of the National Academy of Human Resources (1998) and is an NACD Board Leadership Fellow.



Deb Lifshey is a managing director in Pearl Meyer's New York office, where she specializes in advising clients on compensation matters from a legal perspective including securities disclosure, taxation and corporate governance issues, negotiation contracts, and reasonableness opinion letters. She is a member of the New York and Florida Bars.



Sharon Podstupka is a principal with Pearl Meyer and focuses on executive and broad-based pay communication consulting, including internal communications that educate and engage people in their pay programs. She also helps develop critical shareholder communications that clearly explain pay-for-performance. Her key areas of expertise are communication strategy, stakeholder management, and content development.

- Submit a question and receive your answer directly from Pearl Meyer, either during today's webinar or as a follow-up. You will also be opted-in to receive future executive compensation thought leadership from Pearl Meyer.
- Presentation slides are available today at www.pearlmeyer.com/hcm-disclosure and within the webinar console.
- The replay will be available early next week at www.nacdonline.org/webinars and www.pearlmeyer.com/cic-provisions.

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Why We're Here: A Quick Rule Refresher



In 2020, the SEC adopted final rules intended to modernize and streamline certain disclosure requirements in Form 10K

New Item 101(c) requires companies to **disclose any material human capital management (HCM) measures** that the company focuses on in managing the business (including but not limited to number of employees)

Must include:

The total number of persons employed by the company

Historically required.

May include:

Anything material to business operations

The rule gives a non-exclusive list of possible items to be considered, including "—depending on the nature of the company's business and workforce—measures or objectives that address the development, attraction, and retention of personnel."

Should probably include:

Statistical data to help investors understand the business

Today's Discussion

What's driving this change?

What did companies do?

What did we learn?

What are the key takeaways?

- Looking Backward: Analysis of 1,900+ 10-K public filings subject to the new rule
- How We Helped Our Clients in Practice: What did they struggle with in this first round?
- Looking Forward: A Quick Poll to gather thoughts on what 125 participants experienced, learned from and are thinking about going forward for 2022
- Best Practices

- Most experts believe the push is about helping investors understand “Intangible Value”
- Many institutional investors and corporate leaders are actively taking a public stance on issues like racial and gender bias, economic and health inequities (Blackrock, State Street, Vanguard)
- External and internal stakeholders care and are taking activist roles in changing corporate workforce practices
- The SEC is committed to enhancing transparency, especially related to ESG factors
- BUT.... Be careful about promising too much; there’s a plaintiff’s lawyer for every assertion you make!

What Did Companies Do in 2020/2021?



MDG Study: We Analyzed Six General Categories of Disclosure:

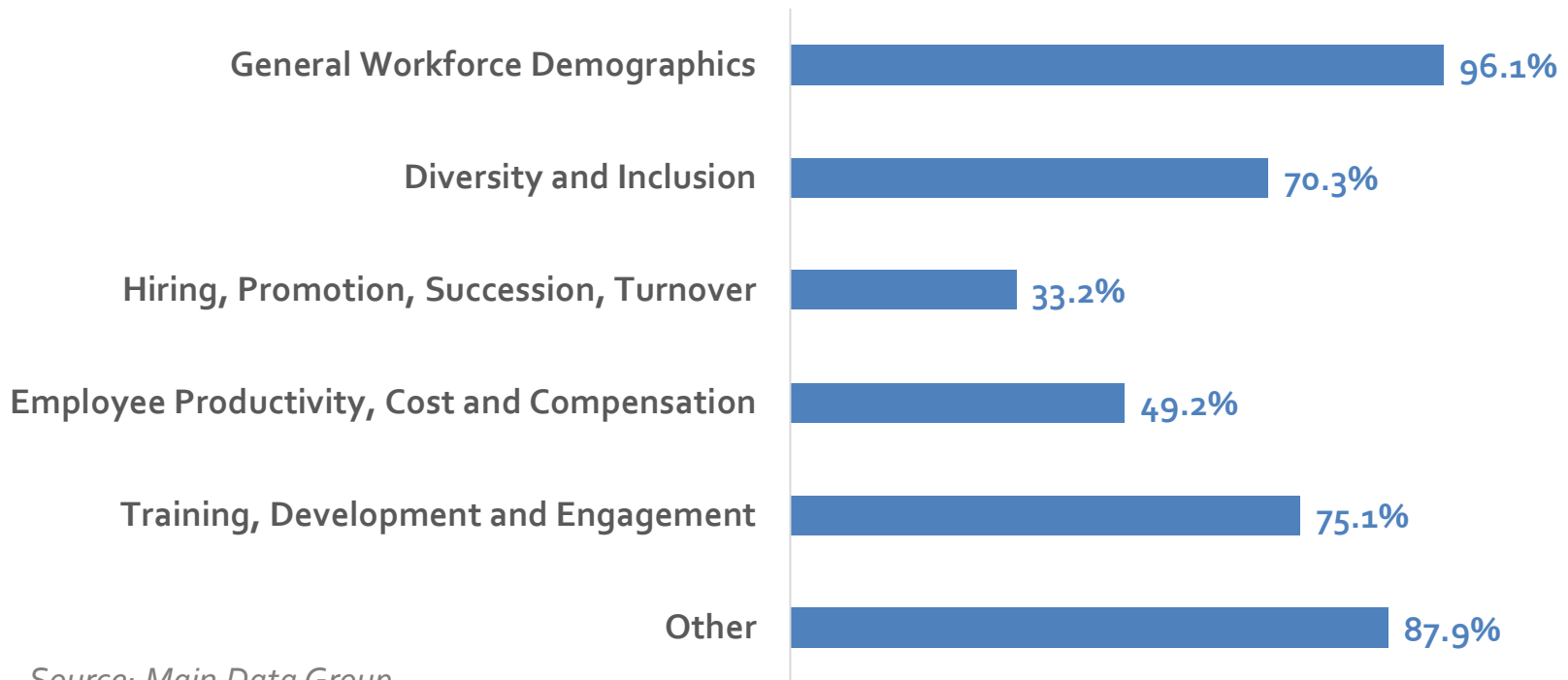
General Workforce Demographics	Diversity, Equity and Inclusion (DEI)	Hiring, Promotion, Succession, Turnover	Employee Productivity, Cost and Compensation	Training, Development and Engagement	Other
<ul style="list-style-type: none"> • Breakout of employees by type (FT, PT, temporary, seasonal) or location (national, international) or other demographic • Policy statement about, or numbers with respect to, outsourced jobs 	<ul style="list-style-type: none"> • Description of DE&I equity policies and practices (either in pay, hiring, promotion, etc.) • Statistics on DE&I (i.e., ethnicity, gender) population overall and/or by organizational level • Statistics on DE&I (i.e., ethnicity and gender) in hiring, promotion, and/or turnover - overall and/or by organizational level • Description of inclusion groups or associations maintained • Pay equity assessment results 	<ul style="list-style-type: none"> • Description of hiring or promotion strategies • Internal rate of promoting • Average time to fill vacancies • Discussion of workforce stability • Actual turnover numbers • Description of senior leadership role transition strategy • Description of strategy to promote at all levels of organization 	<ul style="list-style-type: none"> • Discussion of how company rewards innovation / productivity • Profit / Revenue per employee or other return on capital numbers • Total workforce cost (salary, payroll or other) • Description of elements of compensation for non-executive employees • Description of how performance is considered in making pay decisions for non-executive employees • Data on average increases, target bonuses, participation in incentive plans for non-executive employees 	<ul style="list-style-type: none"> • Descriptions of educational and on the job opportunities • # of hours of courses for employees • Cost of training for employees • Description of company culture and/or engagement with employees • Description of workforce empowerment (unions, work-life initiatives, etc.) issues • Description of employee satisfaction surveys administered • Results of satisfaction surveys 	<ul style="list-style-type: none"> • General organization chart or description of company structure / levels • Description of safety measures (e.g., to prevent illnesses, deaths, COVID) • Description of workforce protections (e.g., harassment, whistleblowing) • Data on work-related injuries, fatalities, lost-day rates • Description of community outreach programs • Description of policies for retaining outside vendors (e.g., human rights, diversity initiatives)

MDG Findings Through April 23, 2021



Focus on Annual Report/Form 10Ks

Percentage of Occurrence out of 1,922 Filers



Source: Main Data Group

Other Interesting Observations

- Almost all companies presented qualitative and quantitative metrics, but quantitative metrics were less frequent and often high level
- Most companies included information about the impact of COVID-19 on human capital (although most was qualitative)
- DEI was important ,but:
 - Often described qualitatively
 - Quantitative disclosures were limited to high level employee headcounts and gender percentages
 - Often generic and not specifically aspirational
- The length of the disclosure in the 10-K increased dramatically, but the word counts varied dramatically; there was no boilerplate

Beyond the new SEC requirement, to what degree is your company currently feeling obligated in some way to disclose more information about your HCM initiatives / priorities?

- Significant
- Moderate
- Limited
- None

Placeholder for Poll Results

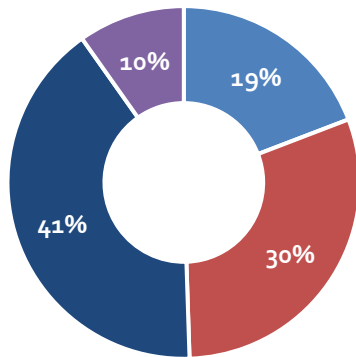


The Pressure Is On

Findings From Our Pearl Meyer HCM Disclosure Quick Poll Survey

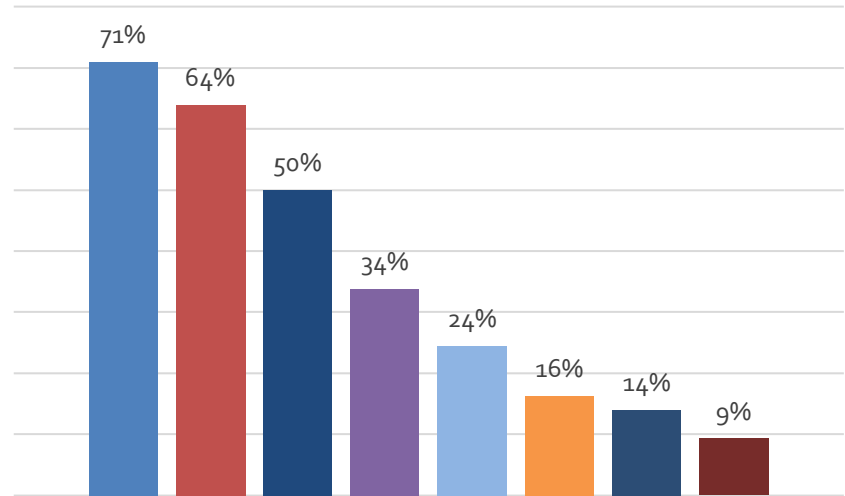
Most respondents (81%) are feeling obligated in some way to disclose more information about HCM initiatives / priorities:

To what degree are you feeling obligated in some way to disclose more?



■ None ■ Limited ■ Moderate ■ Significant

Which constituencies are looking for this additional information?



■ The Board/Compensation Committee ■ Investors
■ Proxy Advisors ■ Employees
■ Community ■ Customers
■ Activists ■ Media

Polling Question #2



For 2022, do you anticipate expanding the HCM disclosure in your Annual Report/Form 10-K?

- Yes
- No

Placeholder for Poll Results

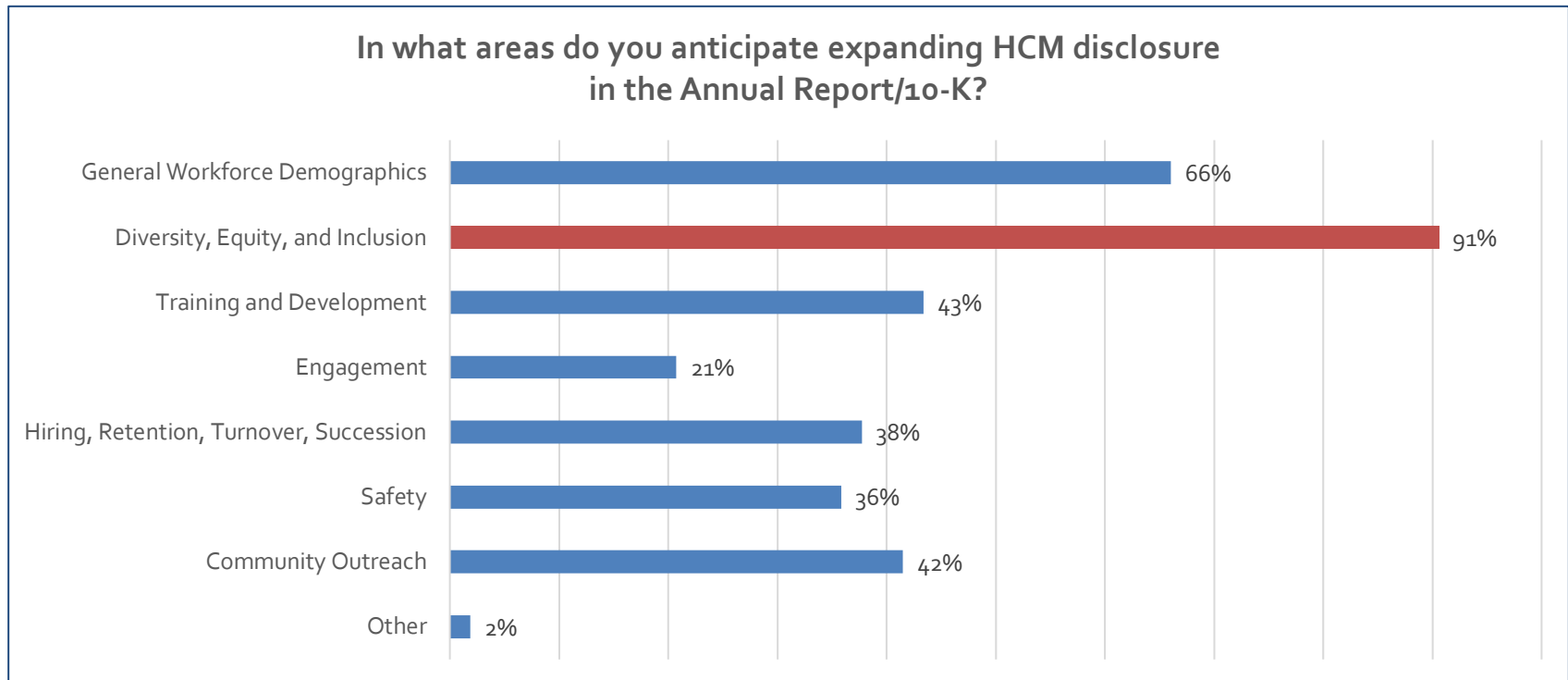


More Pressure Means More Transparency



Findings From Our Pearl Meyer HCM Disclosure Quick Poll Survey

More than half of respondents (~52%) said they plan to expand their Annual Report/Form 10-K disclosures in 2022, with DE&I the clear front runner in terms of HCM topic area



Polling Question #3



For 2020/2021, did you disclose your company's HCM initiatives / priorities *using any other* communication vehicle(s) *in addition to* the required Annual Report / Form 10-K?

- Yes
- No

Placeholder for Poll Results

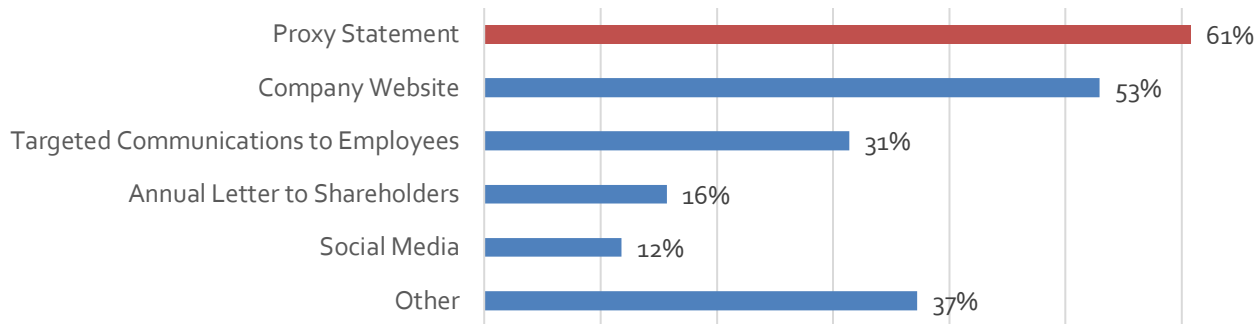


The Annual Report/10-K Is Not Alone



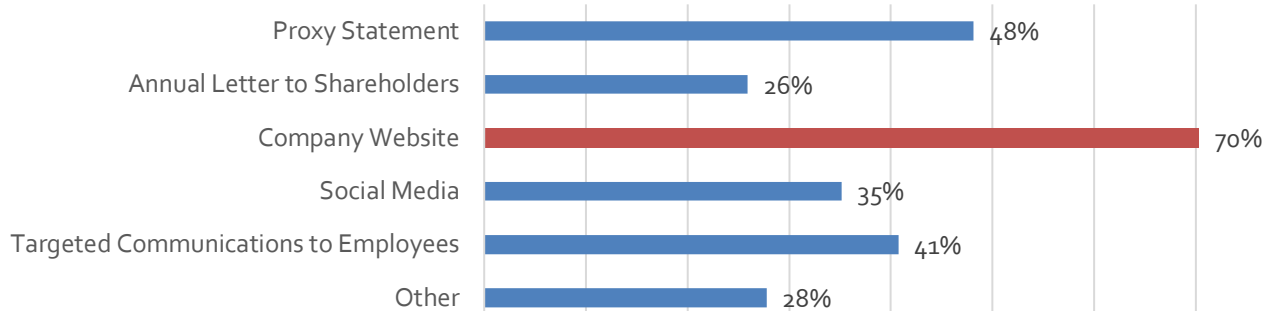
Findings From Our Pearl Meyer HCM Disclosure Quick Poll Survey

In which additional communication vehicle(s) did you provide HCM disclosure/information?



Just under half (~46%) of respondents leveraged other communications in 2020 / 2021

In which additional communication vehicle(s) do you anticipate providing HCM disclosure/information?

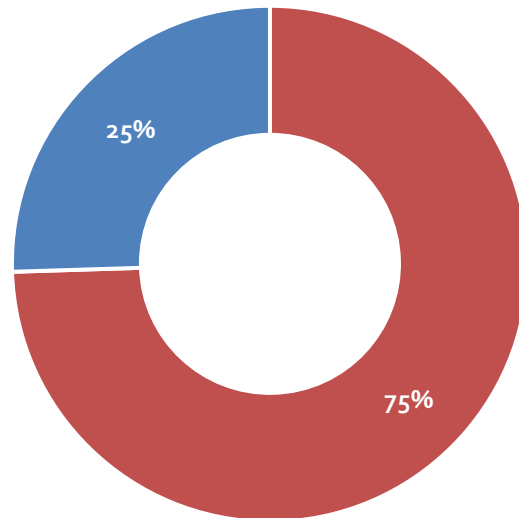


Just over half (~52%) of respondents plan to leverage other communications in 2022

Key Takeaway #1: Peer Practices Matter

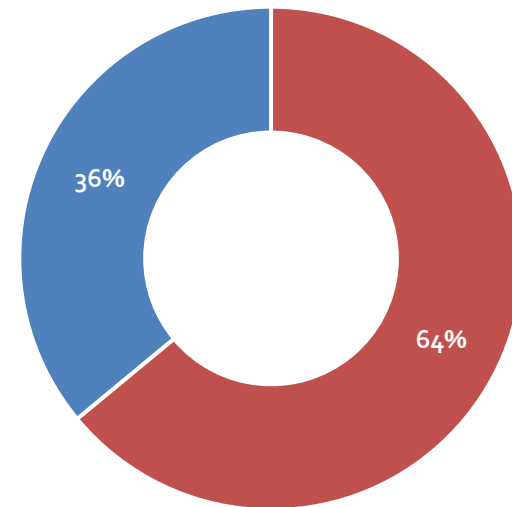
Findings From Our Pearl Meyer HCM Disclosure Quick Poll Survey

Is the way in which your peer companies/competitors disclose their HCM initiatives/priorities important to you?



■ Yes, it is important ■ No, it is not important

To what degree does their approach influence your decisions about future disclosure?



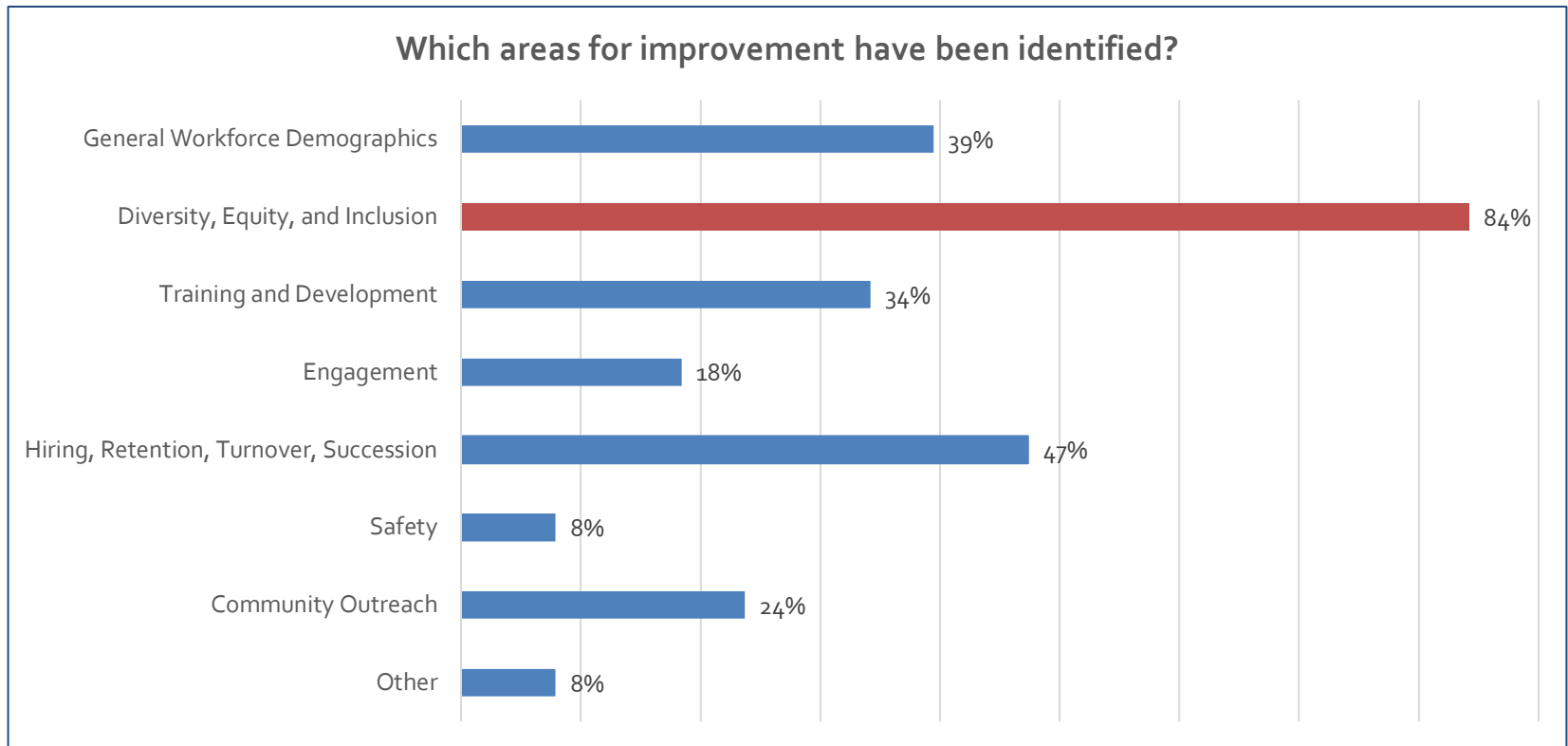
■ If we see clear trends, we will follow them
■ This does not influence our decisions at all, we just want to know where we stand relative to our peers

Key Takeaway #2: DE&I Improvement



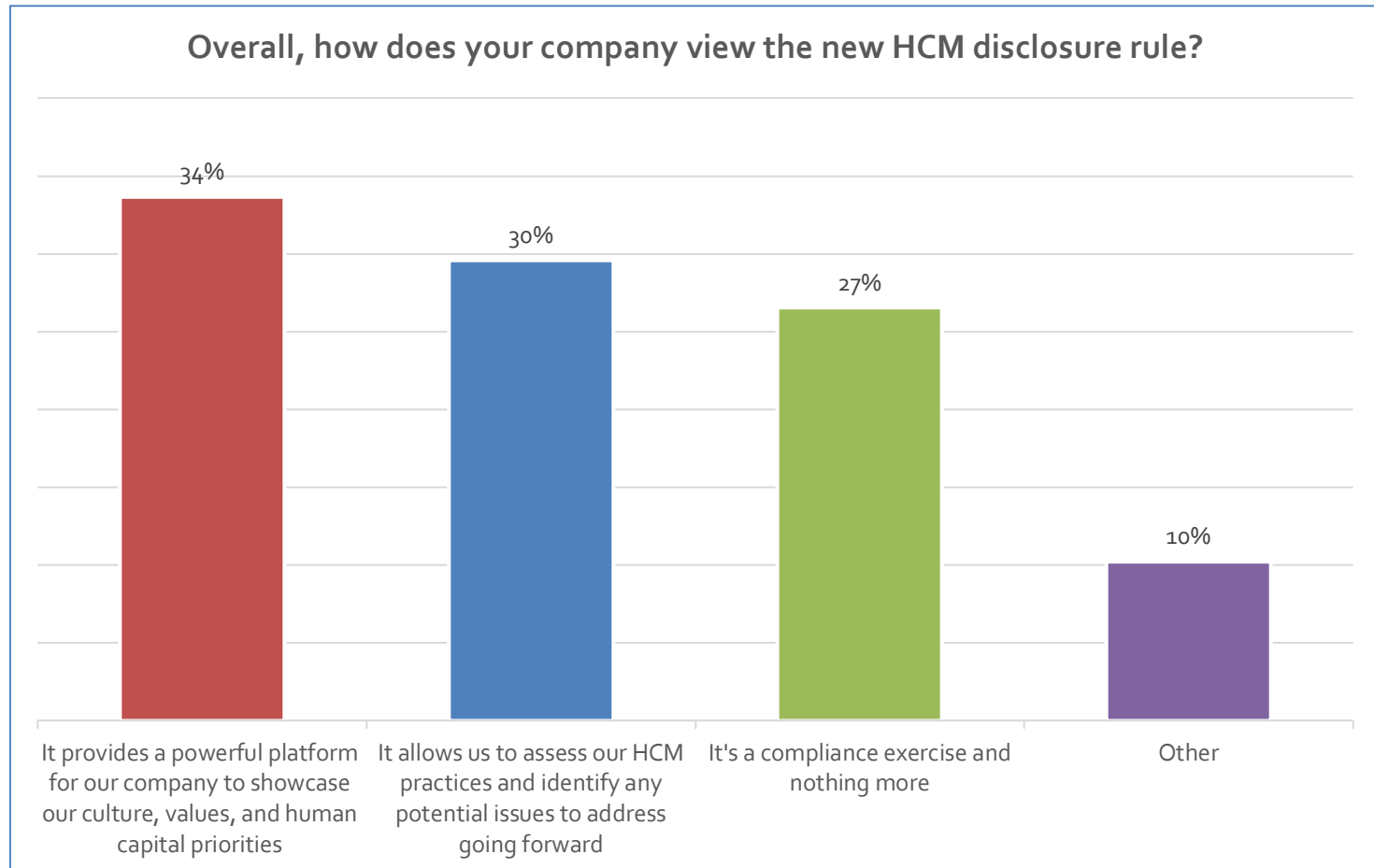
Findings From Our Pearl Meyer HCM Disclosure Quick Poll Survey

Of the respondents who said that this past year helped them identify potential HCM areas to assess in the future, DE&I was the main concern



Key Takeaway #3: One Size Does Not Fit All

Findings From Our Pearl Meyer HCM Disclosure Quick Poll Survey



- Does your CEO (or other NEOs) have HCM measures baked into their compensation programs? Are they long-term or short-term?
- What will be your process for peer comparisons and how much of an influence will it be on your organization?
- Do your NEOs include an individual who is responsible for HR and HCM?
- How will regulations/legislation/reporting standards change over time?
- What is truly proprietary?
- How much are you willing to promise?

Questions

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Join NACD and Pearl Meyer for our next Compensation Series webinar on August 5, 2021 at 2:00 PM (ET)

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Thank You