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Advancing the human capital agenda

Take Note, March 2019

For too long, a company's success has been measured purely by its financial performance. But increasingly, in a social-media world, the success of a business is aligned to the satisfaction of employees. With fewer rights granted to employees in the US than other developed nations, we explain why we are starting a dialogue on the issue of human capital.

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Employees are often a company's most valuable asset – and a company's approach to working practices and employee benefits are a critical component in recruiting, retaining and motivating, and thus maximising the productivity and value of this asset. Now more than ever, given the prevalence of social media in our lives, employees offer a window into the culture of a company. And for investors, employee job satisfaction and engagement offers important clues to the health and future performance of a company.

In the US, companies need to focus on human capital

The provision of decent jobs is one of the most fundamental ways in which businesses support economic growth. Indeed, we spend more time with our colleagues than we do with our families. As a result, our relationship with our employer and our colleagues has a profound impact on our financial and mental well-being.

In the US, fewer statutory rights are granted to employees than in other developed nations, for example:

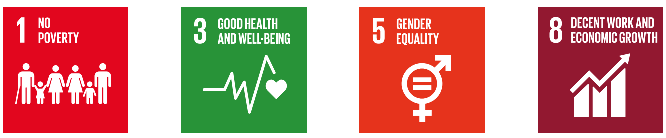
- only 76% of workers have access to paid leave[1] and the median number of days provided is eight[2] (compared to a minimum statutory entitlement of 20 days in the European Union[3]);
- maternity leave is strict, with the US the only OECD country to not mandate paid leave for new mothers[4]; and
- the US is the only industrialized country without a national paid family-leave policy[5].

The absence of some statutory employment rights, we believe, puts more paternalistic responsibility on US employers: it provides great opportunities for such companies to distinguish themselves from their peers in the competition for talent and the maximisation of their workforce's productivity. With low unemployment, wage pressure on the rise and skills shortages growing in many areas, monetary and non-monetary benefits can make the difference between retaining or losing talented staff as well as reducing healthcare costs and improving output.

While there are many great examples of good employers, in aggregate many US companies are perhaps shying away from making necessary long-term investments in their people. In recent years, with corporate profits high, US firms have bought their own stock with extraordinary zeal. Last year, stock buybacks – when a company buys back its own shares from the broader marketplace – averaged $4.8bn a day, double the pace of the previous year[6]. This practice can be seen as a sign of short-termism among company management, boosting immediate shareholder value. Importantly, it draws available money away from long-term investment – for example, investment in employees to ensure future skills gaps are avoided.

In addition, companies must learn to accommodate a multi-generational and more diverse workforce. With unemployment dates shifting back for many companies and demographics in some areas continuing to change rapidly workplace environments will need to adapt accordingly. Furthermore, today, the youth unemployment rate in the US is at least twice the national average and 5.5m US youth (aged 16-24 years) are not in school or work[7]. Many young people are looking for work that they can't find, often because they simply do not have the skills required by employers. These skills can however be transferred to younger workers by more experienced members of staff.

US companies are thus uniquely placed to have a transformative impact on people's lives and help support achievement of the Sustainable Development Goals (SDGs).



[1] "Employee Benefits Survey – leave benefits: access," published by the US Department of Labor in March 2017.
[2] "Employee Benefits Survey – paid holidays: number of days provided," published by the US Department of Labor in March 2017.
[3] "Working hours," published by the European Union https://europa.eu/youreurope/business/human-resources/working-hours-holiday-leave/working-hours/index_en.htm
[4] "OECD Family database," published by the OECD in October 2017.
[5] "A national paid parental leave policy for the US," by Christopher Ruhm (Hamilton Project) in October 2017.
[6] Corporate stock buybacks are booming, thanks to the Republican tax cuts," published by Vox on 22 March 2018.
[7] Opportunity Nation: https://opportunitynation.org/disconnected-youth/

Why action is needed

For US employers, unplanned employee turnover is expensive, both in terms of the explicit costs of recruitment and training new staff and the less explicit opportunity costs associated with reduced productivity and diverted management attention.

Although employers monitor labour costs and productivity ratios closely, there are more significant costs associated with absenteeism and presenteeism: according to two studies conducted by the Journal of the American Medical Association, on-the-job productivity losses resulting from depression and pain is roughly three times greater than the absence-related productivity loss attributed to these conditions.

The continued shift in working population demographics exacerbates recruitment challenges. While older workers bring vital, often hard to replace, skills and depth and breadth of experience, they typically also cost more in terms of both salaries and health insurance costs. Conversely, younger workers increasingly expect greater flexibility and, it is suggested by some, potentially exhibit lower company loyalty, dis-incentivising investment in their development.

What is clear, however, is that company workplaces now commonly need to accommodate a multi-generational and diverse workforce. This likely necessitates investment in ergonomic equipment to prevent and manage chronic diseases as well as in initiatives to support employees' mental and physical well-being. Such investment should be a positive, with programmes designed to reduce absence rates by ensuring employees are equipped with necessary skills and resilience.

What's more with the growth of social media and the emergence of review sites, such as Glassdoor (a website where employees and former employees anonymously review companies and their management), employees can increasingly become powerful advocates for a company's brand.

Creating value through human capital management

In recent years, more companies have started to use employee benefits and related initiatives as a differentiator when competing for talent and demonstrating leading-edge thinking in terms of their overall employee value proposition (see practices adopted by companies globally below). Such companies tend to experience lower levels of employee turnover.

Indeed, we believe there are a number of tangential benefits that US employers are able to provide which can further participation in the labour market and support many of the necessary ambitions around health and well-being that are encapsulated by the SDGs.

For example, the addition of new benefit programmes or the reconsideration of leave policies is becoming a significant priority for many companies, in part in response to the shifting priorities of younger workers and the increased caring needs which are falling on both older and younger workers

Example practices

- A German auto manufacturer has invested heavily in equipment to support the employees on their manufacturing line. The company has mapped out its entire factory with a traffic-light system indicating ergonomic comfort, so managers can schedule shifts in such a way that the same body parts are not overburdened[8].
- A US technology company offers up to six months of fully paid leave to its new parents in the US and is expanding this practice globally. For mothers travelling on business, the company provides breast milk delivery services that help employees send breast milk back home[9].
- A British telecommunications company provides access to Cognitive Behavioural Therapy for staff experiencing common mental health problems, in turn reducing individuals' waiting time to receive treatment in some case from one year to just two days[10].
- A US technology company has introduced a "leave share" programme which allows employees to share their relatively generous benefit of 20 weeks of paid parental leave with a spouse or partner who does not work at the company and who does not have access to paid leave[11].
- French tyre manufacturer provides its North American employees with a myriad of health tools, such as biometrics, personal health reviews and family health centres[12].
- A US retail giant offers employer-paid high school diplomas or general education diplomas. It has also introduced a tuition benefit wherein it heavily subsidises degrees in supply chain management or business[13].
- A US mid-west industrials company enables its employees to earn points and rewards for taking steps to improve their physical, emotional, financial and work well-being and makes use of interactive technology while also providing subsidised healthier meals[14].

Getting serious about investing in human capital

For a company to succeed, an engaged, motivated and productive workforce is a critical input. That's why a company's approach to human capital management is important – and so, we are asking more US companies to get serious about investing in their employees.

Although we are at nascent stages of engagement on the subject of human capital with US companies, we encouraging enhanced group-level disclosure with respect to a company's approach. Specifically:

1. What analysis has the company undertaken to understand the relationship between their employee's health and well-being, engagement levels and their attendance at work?
2. What is the differential, if any, between the: a) health insurance benefits; and, b) leave entitlement, offered to management and that offered to the rest of the workforce?

[8] "Germany invests to prolong employees' working lives," published by the Financial Times in January 2019.
[9] "Personal and family services," published on the company website as at 2019.
[10] "Time to change," published on the company website in November 2007.
[11] "Two years in, our parental leave policy is working for parents," published on the company website in August 2017.
[12] Company website as at July 2014.
[13] Company website as at May 2018.
[14] Company's 2018 Sustainability Report.

3 What workplace wellbeing and health interventions has the company implemented to support employee wellbeing (initiatives may include those to promote and support physical health such as subsidised or free gym membership, nutritious meals or child care)?

4 What support and incentives does the company provide to promote cessation of harmful activities such as smoking or other addictions?

5 What challenges does the company face from shifting demographics? Have measures been taken to accommodate the needs of older workers? Is there a concerted focus on developing the skills and capabilities of younger workers?

6 Has the company measured the return on its investment in employee training or wellness initiatives?

Indeed, such enhanced disclosure could not only transform employees' lives but support the delivery of the SDGs too.

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