

Baidu

Following EOS engagement, Baidu improved its disclosure on human capital management. EOS engagement contributed to the company's understanding of best-practice human capital management, leading to improved disclosure.

Company overview

Founded in 2000, Baidu's mission is to make our complicated world simpler through technology. Baidu is a leading artificial intelligence (AI) company with a strong internet foundation, trading on the NASDAQ under "BIDU" and HKEX under "9888". One Baidu American Depository Share (ADS) represents eight Class A ordinary shares.

Our engagement

EOS has been engaging with Baidu on human capital management since 2016. Our engagement began in the context of changing the company's culture to improve its search platform for ethical advertising. A chief operating officer (COO) was appointed in 2016 to oversee the company's AI vision. In March 2017, we were therefore able to discuss human capital management in relation to incentivising and managing performance for AI applications. In August 2018, we met Baidu's executive director plus a group of other investors at the company's California offices. After an impressive presentation of the company's vision for its future, along with how it intends to manage a large, high-growth technology enterprise, a question was asked about the recent departure of the COO, allegedly due to conflicts with the chair/CEO. The company reassured the investors that the executive turnover rate was low in the past and that the COO had family circumstances to attend to.

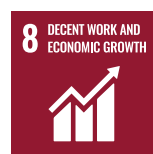
Engagement objective:



Social and Ethical:

Human Capital Management:
Improve disclosure of human capital management

Sustainable Development Goals:



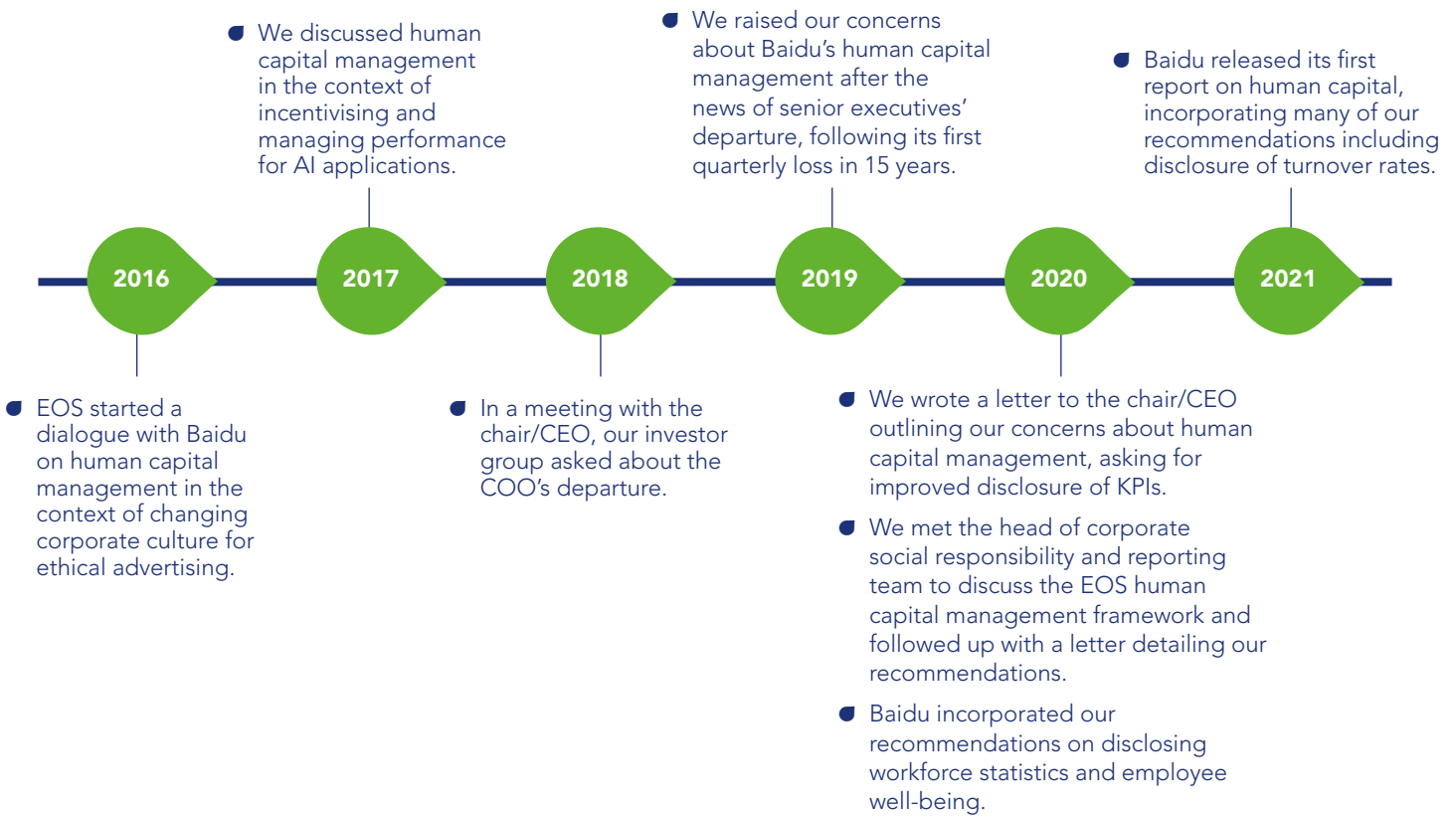
“”

Engagement with EOS helped us better understand investor expectations on human capital management and challenged us to evaluate and improve our talent management framework.

– Juan Lin, Investor Relations Director, Baidu, Inc.

In May 2019, we intensified our engagement with Baidu on human capital management. Following the departure of the COO in 2018, the company posted a quarterly loss for the first time in 15 years during its first quarter of 2019 and the senior vice president of the search business, who was a 14-year veteran of the company, resigned. The COO had a credible management record and revitalised the business strategy by streamlining operations and focusing on delivery. After his departure, the strategy remained but more senior executives

EOS engagement timeline



left the company. We communicated our concerns about the accelerated outflow of Baidu's technology talent, which was deemed the worst among technology companies in China, heightened by increasing competition not only from within the technology industry but also from banks seeking to build digital solutions.

Then in June 2019, we met the senior management team with other investors at a lunch meeting in London. We reiterated our concern about the outflow of technology talent. Baidu said this phenomenon is not new in the Chinese technology sector and the company's attrition rate was not higher than historical levels. On senior management turnover, Baidu said it was part of the natural talent review process. We urged the company to disclose relevant human capital management indicators and its efforts around talent retention.

In February 2020, we wrote to the chair/CEO with a proposal to discuss our human capital management framework and the new standards from the International Organization for Standardization to support improved disclosure and measurement. In March 2020, we had a meeting with the head of corporate social responsibility and the expanded reporting

team for the first time. The company acknowledged that its disclosure of human capital management could be improved although it was already disclosing six key performance indicators (KPIs) on talent management aligned with the GRI framework. The company was pleased with our sharing of global best practice. After the meeting, we sent a follow-up letter, asking Baidu to:

- Enhance disclosure of its governance structure for human capital management and provide a contextual explanation on how it is linked to Baidu's core values and culture.
- Disclose time-series data (if possible) on turnover date, retention rate and employee engagement.
- Disclose on diversity and inclusion quantitatively and qualitatively.
- Disclose on employee well-being, including mental health.

Following the release of Baidu's 2019 ESG report, we also provided our written feedback to the company in June 2020, welcoming much improved disclosure and pressing for further improvement by disclosing retention and turnover rates.

EOS has been engaging with Baidu on human capital management since 2016. Our engagement began in the context of changing the company's culture to improve its search platform for ethical advertising.

Changes at the company

In 2020, the company established an ESG committee which includes its human resources department. The 2019 ESG report published in May 2020 articulated its human capital management strategy and communicated talent as Baidu's most important resource, detailing its fair recruitment practices and a transparent performance appraisal system. We welcomed a significant improvement in disclosure and the company's commitment to publishing the report on an annual basis instead of every three years. The company made a deliberate commitment to diversity and inclusion and took up our suggestions to include workforce statistics.

In March 2021, the company released its first special report on human capital management in addition to the 2020 ESG report. Baidu accepted our recommendations as per below:

- Linking Baidu's governance structure of human capital management with its core values and culture. Baidu re-articulated its code of conduct for employees and incorporated feedback from an all-employee survey in shaping the behavioural expressions of the code of conduct.
- Disclosure of turnover rates. In Baidu's 2020 ESG report and special report on human capital, turnover rates of regular employees by gender, region, age group and employment nature were reported.
- Disclosure of diversity and inclusion. Female employee ratios among managers, entry-level management and top management have been reported and also by job functions, such as revenue-generating business management, technical/engineering and research and development.
- Disclosure of employee wellbeing. Baidu disclosed the number of third-party provided confidential counselling services to its employees and their immediate relatives as of the end of 2020.



In our engagement meeting in March 2021, the head of investor relations communicated the significance of the special report on human capital as a new attempt to deliver the commitments in the company's human rights policy established in 2020. The company emphasised talent management as one of top priorities for the board and management, led by the chair/CEO with relevant KPIs for 2021. Currently a mechanism to ensure continuous improvement on talent management is being designed and refined. Accompanied by targets and a pathway, the talent management initiative is to be reviewed each quarter and at the end of each year.

Next steps

We will follow up with the company on the mechanism developed to ensure continuous improvement on talent management and progress the company is making. We will encourage the company to continue to make annual disclosures so that year-on-year improvements can be demonstrated.

 This case study has been fact-checked by Baidu to ensure a fair representation of EOS work carried out and changes made at the company.



Hanah Chang
Engagement
EOS



Kenny Tsang
Engagement
EOS



Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

For more information, visit www.hermes-investment.com or connect with us on social media:



For professional investors only. This is a marketing communication. Hermes Equity Ownership Services ("EOS") does not carry out any regulated activities. This document is for information purposes only. It pays no regard to any specific investment objectives, financial situation or particular needs of any specific recipient. EOS and Hermes Stewardship North America Inc. ("HSNA") do not provide investment advice and no action should be taken or omitted to be taken in reliance upon information in this document. Any opinions expressed may change. This document may include a list of clients. Please note that inclusion on this list should not be construed as an endorsement of EOS' or HSNA's services. EOS has its registered office at Sixth Floor, 150 Cheapside, London EC2V 6ET. HSNA's principal office is at 1001 Liberty Avenue, Pittsburgh, PA 15222-3779. Telephone calls may be recorded for training and monitoring purposes. EOS000978. 0012586 03/22.