

Human Capital Is Rising on the Board Agenda

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Human resources expertise on the board aids talent retention and recruitment strategies.

The number of HR executives appointed to public company boards has surged by 300% since 2017. This unmistakable trend is driven by a confluence of ESG events and has created a new operating environment for many companies. In response, these organizations have been adding human capital expertise to their boards.

Human capital topics are increasingly a part of boardroom agendas. It is evident that HR leaders must be relied upon for their insight into the challenges relevant to today's workforce. They can apply their unique vantage point for companies, qualified as they are to see the intersection between business objectives, capital structures and the workforce.

Reporting on Human Capital vs. Financial Capital

Public company boards are now reporting human capital data included in their 10-K annual reports. In fact, they are reporting on human capital in a way that is slowly gravitating toward how financial capital is reported. There are several driving factors behind this trend.



In the past, few companies disclosed

critical information to their investors pertaining to their most significant assets and liabilities: people. In August 2020, because of mounting investor pressure, the SEC introduced rules for the first time in 30 years requiring the disclosure of human capital resources material to the understanding of the business.

The rules offer a good deal of latitude regarding how the information is reported and are far less onerous than the rules governing financial capital reporting. This flexibility in reporting is due in part to human capital being far more dynamic than financial capital and thus more complex to measure. Still, there is consensus that further regulation is inevitable, and this regulation will require more detailed comprehensive reporting.

Also in 2020, as a result of an unprecedented number of impactful environmental and social issues, consumers and workforces pushed for further transparency.

Some companies have gone to great lengths — well beyond the SEC mandates — to measure and report on human capital (take, for example, efforts to diversify workforces and make them more accessible). For companies, these efforts generate costs and create vulnerability, but they are also critical to making them an employer of choice, an invaluable step toward countering The Great Resignation.

Human Capital Is a Board Agenda Topic

Prior to 2020, boards largely focused their HR-related discussions on executive compensation and succession planning. Since that time, enterprise talent management and DEI have been introduced to the agenda. Recognizing that their

ability to execute strategy was in peril, boards turned their attention to ensuring critical talent is retained, employees are engaged and motivated, and their companies are viewed as progressive employers of choice.

A common commitment being made in Corporate America today is to improving diversity and accessibility at all levels of the organization. A primary method of reflecting that commitment is transparent reporting. Members of the workforce have made it clear that they prioritize working for organizations that value diversity and inclusion. Therefore, reporting on the human capital elements of a business is now standard practice.

This trend is due to boards recognizing that human capital expertise is needed. The change was many years in the making, but it took recent social and geopolitical events to accelerate the evolution. Now, it's widely understood that HR leadership plays a strategic role in moving a company forward.

Human Capital Management Drives Corporate Success

Human capital initiatives are an integral part of a business's success because workforce productivity is the main driver of an organization. As the perspectives and values of the workforce evolve, it is essential that management proactively leads and adapts to a constantly shifting corporate culture.

Companies with a strong HR leader and HR expertise on their board are more agile and better positioned to manage for the future. Boards and companies that lack effective HR leadership are more likely to be reactive and far less competitive. HR leadership strength takes on critical importance in a dynamic, competitive labor market, because of the value of recruiting, retention and organization efforts.

People are the most strategic and significant investment a company can make in its future. So, the case is strong for having comprehensive HR leadership on the board and within management.

HR Leaders, Human Capital and Future-Forward Boards

Over time, the importance of human capital management to a company's success will continue to grow. This is true not only from the employee perspective, but

also from the investor and public perspective. Corporate boards must continue to recognize the value of a contemporary HR function, HR expertise within management and HR expertise among their ranks. It is critical that the trajectory of increased reporting on human capital continues. Organizations that have accepted HR expertise on the board as a competitive differentiator will find themselves well-positioned for the remainder of 2022 and beyond.

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