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Human Capital Management and Investment Decision-Making

Disruptive Forces in Investing

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Anu Rajakumar: Historically employees have often been viewed as a cost-line item rather than as an asset of a company. However, as the unemployment rate in the U.S. reaches a historical low of 3.5 percent as of September 2019, it has become imperative that companies invest in their people to realize profit potential. My name is Anu Rajakumar, and on this episode of Disruptive Forces, I'm joined by Ingrid Dyott, Co-Portfolio Manager of Neuberger Berman's Sustainable Equity strategy, whose team focuses on a variety of ESG issues that are most relevant to the companies in which they invest, including the role of human capital management as it relates to investment decision-making. Ingrid, thank you for joining me today.

Ingrid Dyott: Thank you for having me.

Anu: So just to start off, let's talk about what has changed over the years as we dig into how investors like yourself view workplace issues during the evaluation process for companies.

Ingrid: So clearly in this tight labor market, as you pointed out, the demand for talent is fierce, and many industries—certainly those where intellectual property is paramount—have a fight for talent. At the same time, both GDP growth and many companies' growth is dependent on the availability of a qualified workforce. And so it is vital in this backdrop for companies to incent and empower employees in order to retain and grow their workforce, and quite frankly remain competitive. What has changed is the lens by which companies view its workforce, and it's not just a cost lever on the income statement but an asset that needs to be managed. How you drive growth and profitability might not be cutting employees. It could be how you incent them, how you attract and retain top talent. How do you think about the diversity of the skill set and perspectives? Neuberger Berman and our team have signed on to the Workforce Disclosure Initiative to drive better data on the topic, because there is a dearth as it relates to the S in ESG, meaning social. And what we found through the latest WDI, or Workforce Disclosure Initiative, is that workforce risks are poorly communicated and rarely linked to a business strategy. This is where the role of active managers is important.

Anu: Right, so active managers like yourself are able to dig in below the surface to really unearth these workforce-related issues that I imagine might bolster the long-term investment view. So Ingrid, what's the disruption that you see in the investment space as a result of the dialogue around workplace diversity?

Ingrid: The disruption is really the disruption of thinking. Many investors have historically looked at a single metric in isolation. So, think board diversity. And while board diversity might be a good metric, it's certainly not representative of a culture of diversity at a company. And so what we're seeing is that it's not a single metric, but holistically what has the company done to drive workplace diversity and a culture of inclusiveness? McKinsey recently put out a study looking at some encouraging but sober data that women have increasingly penetrated the C-suite from 17 to 21 percent—but again it speaks to you can't use this metric alone to determine that a company is a good company.

Anu: Right, so not just one sole determinant, but what can you look for? Are there any specific examples there?

Ingrid: Yeah, actually we have a really good example of a company that's in the middle of a turnaround. The new management team recognized that in order to reinvigorate same-store sales growth that they really needed to bring in a different perspective and a more diverse set of managers. They actually set explicit diversity targets in their hiring practices because they recognized the value that that brings to driving this turnaround. You have to understand where diversity or employee practices are integrated into the overall strategy. Clearly metrics are important but understanding how it's integrated into the business is equally important.

Anu: So that's an important idea, is the way that companies think about these workforce issues. Anything else that companies broadly think about as they approach human capital management?

Ingrid: It all depends, and this is the role of an active manager, to really understand it within the context of the industry, the sector and the business that we're investing in. Diversity issues are not the only issues that managements are interested in. How they incent and attract talent broadly speaking, how companies are thinking about a whole range of issues from safety to supply chain, and increasingly, the concept around income inequality. And what is the role of the corporation or the company in thinking about upward economic mobility of their employees? And this is from everything from ensuring the integrity of their labor and their supply chain to their direct operations.

Anu: And do you have any examples of that, of companies that are sort of focusing on income inequality or other major issues like that?

Ingrid: Yeah, absolutely. We've engaged in a number of companies across sectors, really, that have evaluated the concept of living wage and focused on improving wage practices where there are gaps. And this really, in our opinion, underscores the focus of thinking about supply-chain integrity, quality, brand and quite frankly reputation.

Anu: You know, and so today companies are doing a lot more self-reporting on a range of ESG issues, but I'm curious: How could companies better report their investment in human capital and the accompanying progress that folks like you are really interested in?

Ingrid: Engagement is a key part of the process to understand how the company incorporates human capital management into their business and overall strategy. But as I mentioned earlier, there still is a dearth of information out there. Many companies have looked to the sustainable development goals and certainly investors have done as well, but it is more of a framework. And really at the end of the day, we need to see evidence of integration into the business strategy. One example would be a company that's a software company, where clearly in the technology space there is a war for talent. This particular company reports a gender-pay gap report, and they see this as a transparency tool to their employee base that they are a meritocracy. And most people do want to work in a meritocracy. And as a result, the gender-pay gap analysis and the transparency creates a culture of attractive and retaining key talent.

Anu: So Ingrid, when you and your team are directly engaging with the company, what are some of the key questions that you're asking to really understand a company's commitment to diversity and employment?

Ingrid: Well, we are particularly interested in compensation and oversight. We're also interested in what leadership role has management taken on the topic of diversity and employee relations, broadly speaking? What programs and initiatives are in place to attract and retain a diverse workforce? And how transparent is the company as related to underlying metrics? There are a number of issues. Today we highlighted diversity, but they span from supply chain, to safety, to other employee engagement.

Anu: Now we mentioned earlier gender diversity as one key area to look at when it comes to workplace issues, among many others. How do you think of improvement in gender diversity, and how do you think that can lead to better performance of a company?

Ingrid: Well, women make up over half the workforce. They have significant purchasing power, and here in the U.S. they've been attributed to now controlling 60-percent of all personal wealth. So from my perspective, it shouldn't take an academic study for companies to recognize the value in harnessing women in the workplace. And there are various studies showing that companies find clear value in diverse boards and management. So I think the business case is pretty clear.

Anu: It's pretty clear, yep. So now Ingrid, as we wrap up, I'd love to close with your final thoughts on where you see the path moving forward as it relates to human capital issues.

Ingrid: Well, human capital issues are like humans and will always change. From our perspective, technology and automation will clearly create new challenges and opportunities, though our view is people will continue to make decisions and drive companies. And those companies that are thoughtful and holistic about planning for the long-term will be advantaged in the marketplace.

Anu: Yeah, I think you've made an important case today, that human capital management is not just a metric or a check-the-box exercise. It's really an important component of a business strategy and it seems like engagement is a critical component to assess a company's long-term investment performance.

Ingrid: Exactly.

Anu: Well Ingrid, thank you so much for joining me today.

Ingrid: Thank you.

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