

Human Capital Disclosures in the Chemical Industry

by: David Bixby, Jim Kzirian and Tom McNeill

Characteristics of the workforce can be instrumental in understanding the profile of a company's most valuable asset: its human capital. Until recently, companies were only required to publicly disclose their employee count. However, the Securities Exchange Commission (SEC) recently finalized rules that require companies to broaden disclosure around human capital management. The rules follow a principles-based approach and give companies flexibility in what to address. The SEC identified examples of potentially material subjects that include attraction, retention and development of talent, but declined to be more granular in guidance provided. Based on the first batch of disclosures in 2021, we have observed variability in the types, length and nature of these disclosures in registrants' 10-K filings.

The rules specify that companies must provide "A description of the registrant's human capital resources, including the number of persons employed by the registrant, and any human capital measures or objectives that the registrant focuses on in managing the business (such as, depending on the nature of the registrant's business and workforce, measures or objectives that address the development, attraction and retention of personnel)."

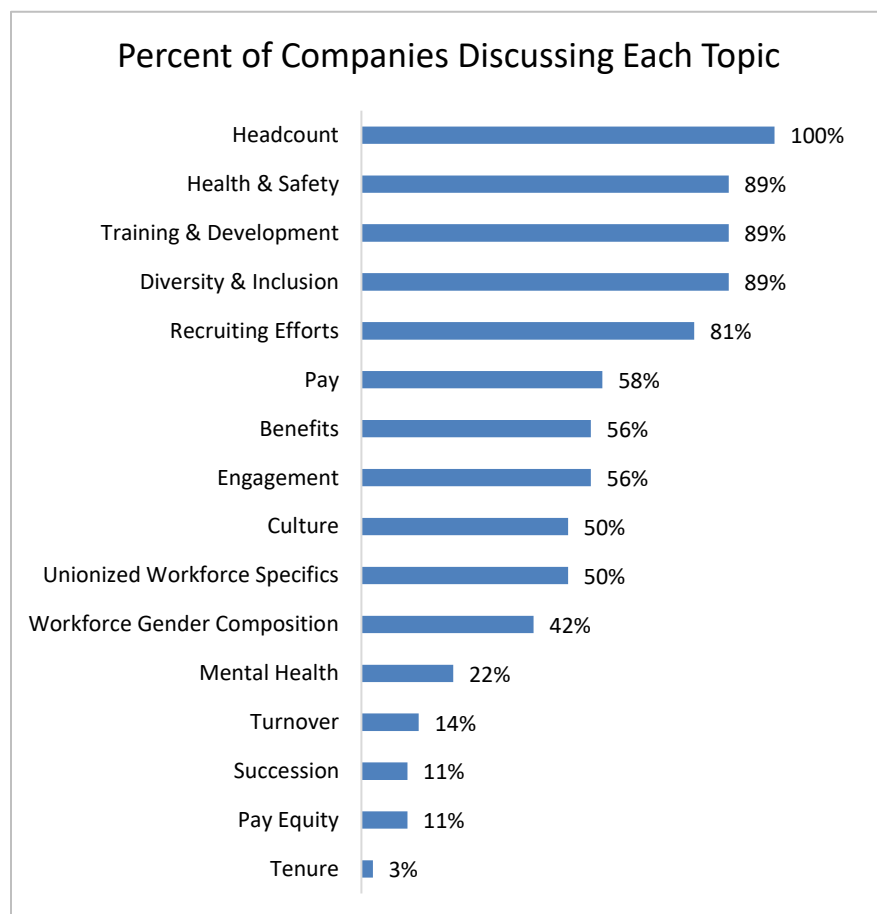
Meridian reviewed 2021 filings (generally reflecting fiscal year 2020) of 36 large chemical industry companies to provide some guidance for companies in this space on the topics that human capital disclosures address, how much detail they provide, and the nature of information companies have typically included. This information will provide context and perspective when companies contemplate round two of this information to be filed in 10-Ks in 2022.

Length of Disclosure

In our review, we found significant variation in terms of length of the disclosures, which is not a surprising outcome given the range of company sizes and staffing models in our sample. Median disclosure had 690 words, with a range from less than 200 words to nearly 3,000 words. As our research in other sectors has also shown, there was no meaningful correlation between length of disclosure and total employment or market capitalization.

Common Areas of Focus

Disclosures encompassed a wide variety of topics, although there were some that were more frequently discussed. The most common topics, all with greater-than 80% prevalence, were **headcount**, **diversity and inclusion**, **recruiting efforts**, **training and development**, and **health and safety**. This is consistent with a broader Meridian study of all industries recently released in our Client Update dated April 19.



Other commonly mentioned areas of disclosures, reported by 40 – 60% of companies, include pay, benefits, unionized workforce specifics, engagement, culture, and gender composition of the workforce. In ~20% of cases or less, disclosures covered mental health, turnover, succession, pay equity, and tenure. These less disclosed topics are also generally consistent with the broader Meridian study referenced above.

Below are four examples of chemical industry human capital disclosures, focused on some of the most common subjects covered:

1. *Minerals Technologies Inc, Form 10-K filed 2/19/21, contains a summary of its **safety culture and total recordable incidence rate:***

“The health and safety of our employees is our number one core value. We are committed to the health and safety of our employees, contractors, customers, and members of the communities in which we operate. Our "safety first" culture has been built through dedication, continuous improvement and active engagement. We continue to enhance our safety culture and our top priority is for all employees and contractors to return home in the same condition they arrived to work. While we believe zero-injuries across all our operations is attainable, we have set goals of 1.00 for Total Recordable Incident Rate (TRIR, which is the number of recordable injuries per 100 employees) and 0.10 for Lost Workday Injury Rate (LWIR, which is the number of lost workday injuries per 100 employees), and we continue to make strides to drive incidents below these levels. In 2020, our TRIR was 0.60 and our LWIR was 0.22. This safety-first mindset helps us attract and retain top talent from around the world and drives continuous improvement in our manufacturing operations.”

2. *FMC Corporation, Form 10-K filed 2/25/21, includes a detailed commentary addressing **diversity initiatives:***

“We strive to be an inclusive workplace where our employees reflect the community, are valued, find purpose in their work, and grow and contribute to their fullest potential. We are broadening investments in social areas, including Diversity and Inclusion and racial and gender equity. We

launched two task forces, one on Social Justice and Racial Equity, and the other focused on Gender Equity. Our goal for 2027 is to have Black/African American representation in our U.S. workforce to be 14 percent and female representation to be 50 percent of our global workforce across all regions and job levels. The company has developed new global policies and practices to attract and hire talented individuals from underrepresented minorities. For every new hire we now require diverse candidate slates and multiple dimensions of diversity represented by each interview panel. We are expanding our applicant pools and pipelines by adding a new Human Resource role for diversity talent sourcing and partnering with an external recruiting agency specializing in diverse hiring. Diverse views, backgrounds and experiences are key to our success. We launched three additional Employee Resource Groups ("ERGs") in 2019. FMC has six total ERGs with more than twenty employee resource group chapters. We scored 100 percent on the Human Rights Campaign Foundation's 2021 Corporate Equality Index, a U.S. benchmarking survey measuring corporate policies and practices related to lesbian, gay, bisexual, transgender and queer ("LGBTQ") workplace equality. This is our second consecutive year receiving a score of 100 percent. Over the past several years, we have had significant policy changes related to parental leave and domestic partner and transgender inclusion benefits in the U.S. Due to our diversity and inclusion strategy, women in senior management positions increased from 32 percent in 2019 to 34 percent in 2020."

3. *Sentient Technologies Corporation, Form 10-K filed 2/22/21, includes a robust disclosure addressing its **training and development** programs.*

"In order to continue to develop and retain our key talent, we offer training programs based upon the employee's role in the Company. We also maintain personalized career planning, ongoing coaching and development by Corporate and local leadership, and a "High Potential Program," which ensures our key talent learns from and gains exposure to senior leadership. Performance reviews and succession planning occur company-wide on an annual basis. Individual goals are set annually for each employee, which flow from the Company strategy, and attainment of those goals is an element of the employee's performance assessment. We invest in our development programs for high-impact roles, such as our General Manager in Training, Sales Representative Trainee, and Flavorist Trainee programs. We continue to "promote-from-within" and provide opportunities for our internal employees to grow their careers, with over half of our senior leadership and over half of our business unit leaders previously having been promoted to their current role from within the Company. We closely monitor turnover overall and in critical roles to vet our retention efforts and identify areas of need for future investment"

What to Expect Going Forward

As evidenced in the patterns above, chemical industry disclosures filed in 2021 are highly variable for each company in terms of length and topics covered. As with any new disclosure requirement, companies will be looking closely at peer filings for guidance on how to refine and improve their own disclosures for next year. Although we do not expect this to be a major area of focus for Compensation Committees, we believe it is likely going to be an increasingly common topic of discussion with various stakeholders, specifically with questions about what was disclosed in the first year. After all, human capital is often cited as public companies' most critical asset. Ensuring a comprehensive and accurate understanding of how that asset is developed and "cared for" is likewise critical to investors determining where to allocate resources.

With that feedback in hand, and with increased awareness and reporting on key human capital management statistics at the Board level, expect to see certain items on our list above receive greater attention next year:

- The Board's role in overseeing human capital management
- The connection between human capital management, healthy culture, and business strategy
- More detailed discussion of diversity and inclusion initiatives

- More specific diversity statistics, and more discussion of pay equity

The first year's disclosures are just the starting point for a more thoughtful discussion about a subject that is certain to receive increased scrutiny going forward – from the field all the way to the C-Suite and the Board room. Keep on the lookout for future chemical industry updates from Meridian in the near future.