CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Human Capital Management in European Small and Mid-Sized Companies: Analysing the Data

MARCH 2024

About the author.

Benjamin Chekroun

Stewardship Analyst
Engagement and Voting

Benjamin Chekroun has been an engagement and voting analyst with Candriam since 2020. Joining Candriam in 2018 as Deputy Head of Convertible Bonds, he spent almost two decades managing convertible bond portfolios and trading bonds, with experience in Asia, London, New York, and Paris.

He holds a Masters degree in international business from the Weller International School in Paris.

Many thanks to **Kanak Umredkar** for research assistance and data analysis.

Table of contents.

Executive summary.

We believe that **Engagement means** asking for information, sharing best practices, influencing, and **accompanying an investee company on its sustainable journey.** At Candriam, we have long been selective and deliberate in our choice of Engagement topics, often focusing our efforts on a pre-determined set of topics – for example, *social justice* in the energy transition (2020).

We are not new to the 'Social' in Environmental, Social, and Governance topics. Covid-related disruptions have made the business importance of the 'S' in ESG risks more obvious to all. In 2020, we decided to conduct an Engagement campaign on Human Capital Management in Small- and Mid-Sized Companies (SMIDs). The business importance of attracting, retaining, training, and motivating talent in rapidly-growing companies demonstrates the natural intermingling of priorities within our Engagement, ESG Analysis, and European Equity Investment Teams.

We have discovered that **these rapidly-growing European companies take their need for human capital seriously,** and they are focused on their unique Human Capital Management challenges. Diversity has improved, which can lead to greater innovation and profitability. Staff turnover has risen for most of our targeted companies -- not too surprising given the overall post-Covid changes in the employment market, but a red flag in a few instances. Transparency has improved, but many of these firms appear hesitant about the looming reporting requirements under the EU Corporate Sustainability Reporting Directive.

The data collected in the two formal phases of the campaign, conducted between 2020 and 2023, has been integrated into our ESG and fundamental investment analyses. It has led to re-examination of our views, some positive and some cautionary, for 15 companies. We are engaging with twelve individually on specific challenges, mostly instances of red flags thrown up by a combination of factors. For example, a combination of high workforce growth and a simultaneously high turnover rate catches our attention, as well as the combination of a rising proportion of part-time workers along with a simultaneous rise in absenteeism.

This is a successful, and ongoing, Engagement campaign. Why? Because Engagement, ESG Analysis, and Investment Management worked in tandem on this goal. Because data availability improved. **Because companies were interested in sharing and improving best practices.** And, because we are accompanying our investee companies on their sustainable journey.

Introduction: Our Campaign.

Despite constraints on both their human and financial capital, Small- and Mid-Sized companies (SMIDs) share similar business ambitions with their larger counterparts while competing for the same talent. They need talent to fuel their growth, yet that rapid growth can strain employees. Attracting and retaining talent, while simultaneously maintaining workforce productivity, poses a challenge.

If large companies with extensive reporting systems find workforce-related reporting to be a challenge, how much more so for these smaller companies? Will they be able to collect the 2024 data for the new CSRD reporting requirements which begin to roll out next year?

At Candriam it is our Conviction that companies which embrace sustainability-related opportunities and challenges in combination with financial opportunities and challenges are the most likely to generate shareholder value.

Thus, we designed a campaign to actively engage with Small- and Mid-Sized investee companies, to better understand their performance in managing their Human Capital. The workforce size ranged from fewer than 100 employees to several thousand.

The first phase of our campaign was designed to be data-driven. We collected relevant information from published disclosures of the target companies, requesting any missing information. We reached out to 60 investee[1] companies between November 2020 and August 2021, receiving a gratifying response rate of 72%. Our findings suggested that these companies place an emphasis on human capital, and demonstrate a genuine willingness to improve disclosure. Our results also revealed that both reporting systems and related published disclosure are lagging. We provide more on this phase in our January 2022 Engagement Case Study[2].

What exactly is a 'SMID'?

Candriam defines European Small- and Mid-Sized companies as enterprises with market capitalization between EUR 250 million and 19 billion, a figure we review annually as markets evolve. We aim for a practical alignment with the MSCI Europe Small Cap NR index.*

We used these results to develop the questions for our recently-completed Phase II. This includes 67 Small- and Mid-Sized companies in which we are currently invested.[3] Of these, 49 are continuing participants or targets from Phase I, providing an opportunity to track the change of Human Capital Management (HCM) over a period of two years.

We systematically gathered data on 12 Key Performance Indicators (KPIs) describing four topics -- ***Workforce Stability, Workforce Demographics, Workforce Development, and Employee Engagement.*** We identified directional changes in HCM over the two years. **The response rate for Phase II was an admirably high 84%.** We provide a full review of each of our KPIs in Annex II.

The result is a comprehensive analysis of Human Capital Management (HCM) practices of European Small and Mid-Cap companies. We specifically focus on three major areas:

- **Evolution of transparency of KPIs**
- **Corporate Sustainability Reporting Directive (CSRD) preparedness of the SMID companies**
- **Human Capital Management performance**

Timeline	Goals	Candriam Publications
Campaign Planning and Goal Setting **Fall 2020**	Requested by European SMID Investment Team. Goals set jointly by Investment Team and Engagement Team, incorporating knowledge gained and shared from our participation in the collaborative Workforce Disclosure Initiative.	
Phase I: November 2020 to August 2021	• Collect indicators for preliminary analysis and determine priority topics and priority target companies. • Analyse data. • Construct qualitative questions based on the initial data and establish dialogues.	**Case Study, January 2022** Human Capital in Small and Mid-Sized Firms **Engagement Annual Review, March 2023** Interview with Christian Solé, Deputy Head European Equity, on HCM in SMIDss
Phase II: September 2023 to December 2023	• An integrated Engagement program of qualitative questions and extensive exchanges with companies. • Collect additional data, particularly for investee companies. .	**This White Paper, March 2024** HCM in European SMIDS: Analysing the Data **Case Study, March 2024** Human Capital in Small and Mid-Sized Firms II
Ongoing Engagement	Accompany our investee companies on their journey. For companies with detected issues, engagement is preferred to divestiture.	

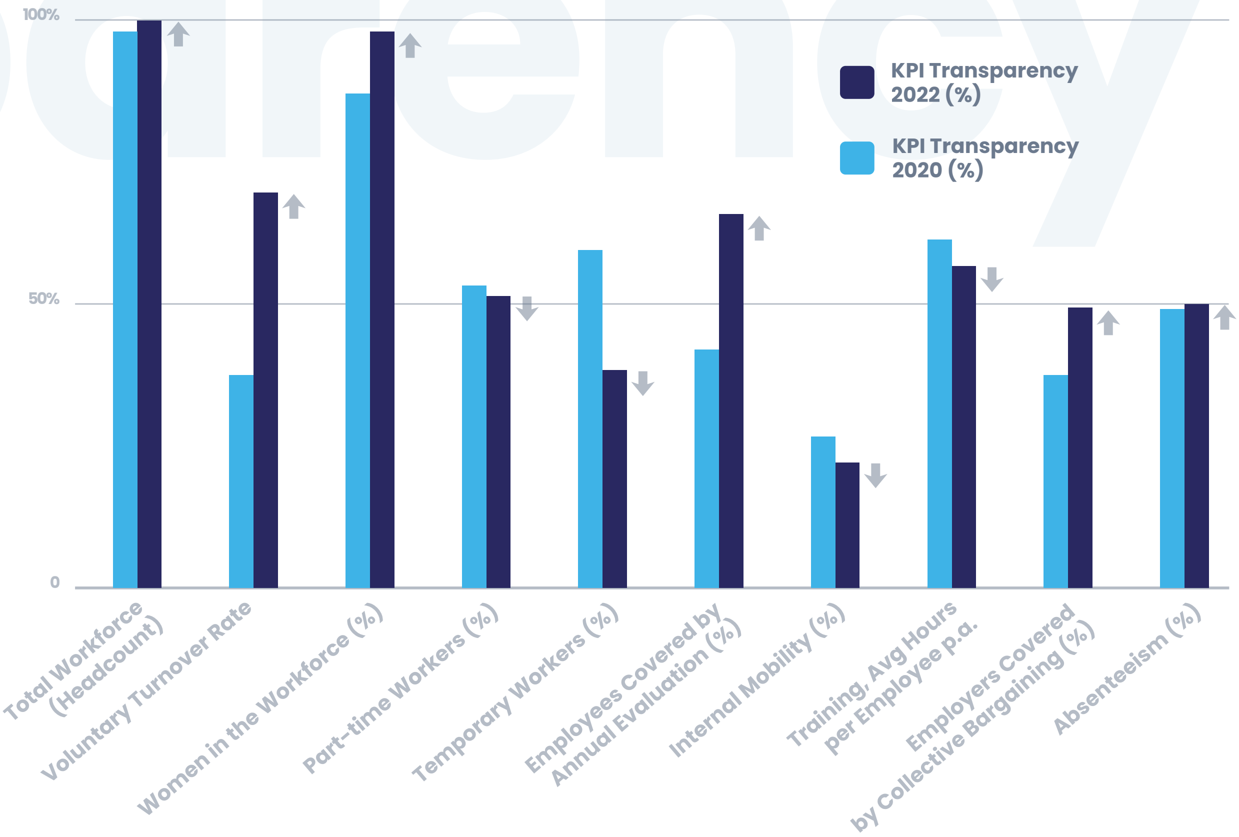
Source: Candriam

Towards Transparency.

Whether they provide this information spontaneously or following a specific request from us, the SMIDs in our study clearly demonstrate a willingness to move towards greater transparency for their shareholders.

Figure 1:
Transparency Varies by Topic

KPI transparency evolution (Phase I & Phase II) in public disclosures



Source: Candriam

Among the ten KPIs collected in both Phases, published disclosure improved for five KPIs, while the other five suffered a reduction in published disclosure (including declines in some categories which will soon need to be published under CSRD/ESRS).[4]

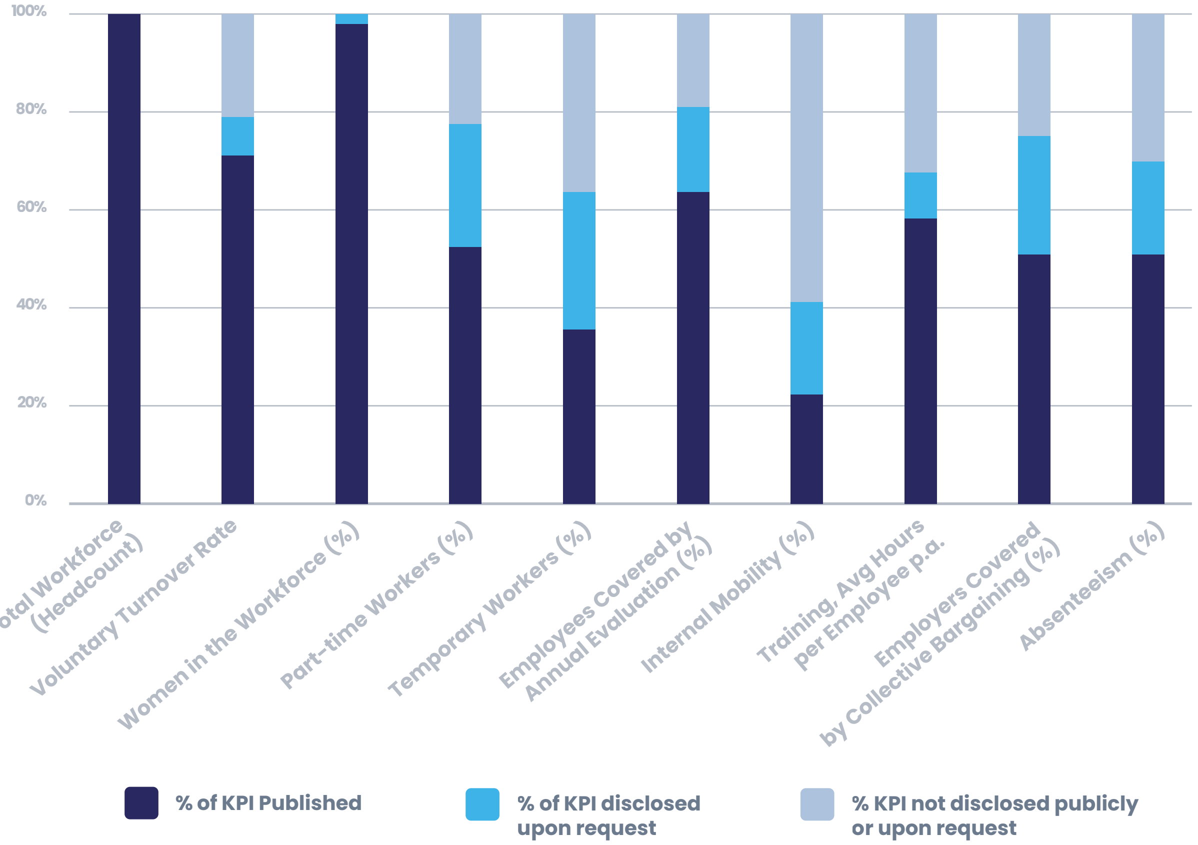
Workforce headcount and the percentage of **women in workforce** remain the two most-reported KPIs (enabling the calculation of the growth in the workforce).

The least-reported KPIs include **internal mobility** and the **proportion of temporary workers**. These two KPIs were also among the five which suffered a reduction in public reporting.

The reduction in transparency of fundamental HR-related information not only raises question about companies workforce development practices but also raises concerns about SMID companies' preparedness to adapt to CSRD reporting landscape.

Interestingly, even when data was not published, it was often made available when requested.

Figure 2:
Potential for further disclosure



Source: Candriam

The **medium blue bars** in Figure 2 indicate the potential for companies to publish data – that is, the orange bars show the full amount of data either published or disclosed upon request.

While headcount was consistently published by the companies in our sample, for all other KPIs some data was only disclosed upon request. For example, the proportions of temporary and part-time workers were frequently supplied only upon request.

This initial analysis revealed a noteworthy disparity between the extent of data collection systems and published disclosure of Social indicators. Why are companies hesitant? And why was there a modest reduction in transparency of even fundamental KPIs?

Spotlight: Training and Retaining.

Given the importance of attracting and retaining staff, **employee turnover** is a critical metric. Employee continuity and institutional knowledge are important for any size company, and particularly for rapidly-growing companies. A certain modest level of turnover can introduce fresh talent, promote creativity, and allow reorganization so the company can adapt to its growing size.

High voluntary turnover, however, may indicate problems with work culture, job satisfaction, or opportunities for professional development. Turnover naturally varies with the type of worker – over the last decade in Europe, manager turnover has ranged between 3% and 4%, while turnover of elementary workers (eg, agricultural workers, cleaning staff) has ranged between 13% and 15%.[5a]

While the optimal level of employee turnover is very sector-dependent, we view turnover greater than 10% as a flag for further analysis. Among our target companies, **voluntary turnover rose from an average of 8.3% in 2020 to 11.2% in 2022,** with a maximum of 17.8%. As a very rough guide, we begin to look more carefully when turnover approaches 10%, but of course that is very dependent upon the industry. We must also keep in mind that the workforce disruptions of the 2020 to 2022 Covid-19 pandemic likely affected the figures.

Certain companies with substantial growth in the total workforce (ie, more than 25%) also suffered notable increases in voluntary turnover. This raises concern about challenges in retaining talent, and serious concerns about the sense of attachment employees may feel, potentially affecting productivity.

While all the KPIs we are following are important, some are perhaps 'more equal than others'.[5b] We believe, turnover is one of those, but should not be considered in isolation from other KPIs. **Development and training are key to retaining employees**. Again, the mythical optimal figure varies by industry, depending on the composition of the workforce, whether there are specific projects with different workforce requirements, whether any regulatory training is mandated, etc. Between 2020 and 2022, the average number of hours of training among the reporting companies in our sample rose from 23.2 to 25.2 hours per employee. Curiously, although hours per employee improved, the transparency of this indicator actually slipped slightly, despite the fact that it is a figure required under the public reporting rules of ESRS. Large companies must report this figure beginning in 2025 (2024 data and results), while all companies with more than 750 employees will be phased in.[6]

For these and other reasons, stakeholders need to look behind the figures on training hours. Case-by-case analysis can be very rewarding in terms of understanding the company's business and outlook.

Spotlight: Determining Diversity.

Diversity is a *profitability* issue, say McKinsey and others.[7] Yet even if companies wish to measure diversity, privacy laws can make it very difficult for them to collect data on their own workers. For example, Europe's Data Protection Directive prohibits the processing of ethnic data. And of course what constitutes 'diversity' is, well.....*diverse*.[8]

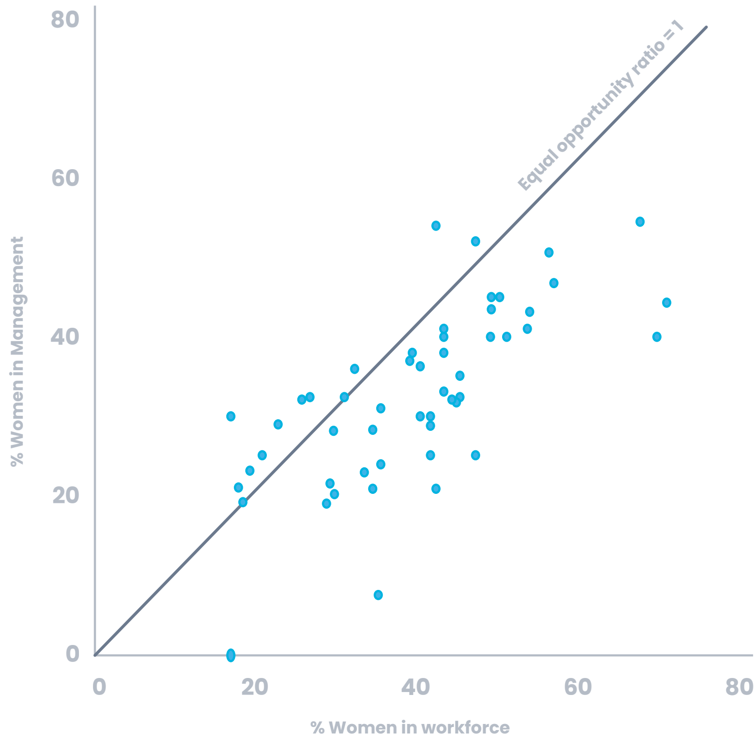
Women in the workplace was one of the metrics among our ten original KPIs. For our second round of data-gathering, we include the proportion of women in management. In contrast to the prohibition on many types of diversity data, gender diversity will be phased in as a required figure for reporting under the ESRS reporting rules. Fortunately, the SMID companies in our sample appear to be well-prepared to publish this data.

It is not enough to employ a diverse workforce, there should be equal opportunities for career development. That does not mean half of managers should be women -- but perhaps the proportion of women in management should be the same as the proportion of women across the company?

We illustrate the relative access to career development for women in our target companies, and show all the companies against the 'Equal Opportunity Ratio'. This EOR is simply that the percentage of women in management should equate to the percentage of women in the company's overall workforce (the **blue line** in Figure 3).

Figure 3:
Equal Opportunity Ratio

Women in Management (%) vs Women in the Overall Workforce (%)



Source: Candriam

A caution for this type of data – simply comparing the overall representation within the workforce to representation on the Board of Directors, or senior management, can offer a misleading picture. A broader definition of management, to include department heads, etc, offers a more accurate picture of the development path available within the company – and a more accurate picture of the diversity of skills and background brought to decision-making and ultimately, growth and profitability. (See Annex II for additional data on gender diversity bias.)

CSRD Reporting Preparedness.

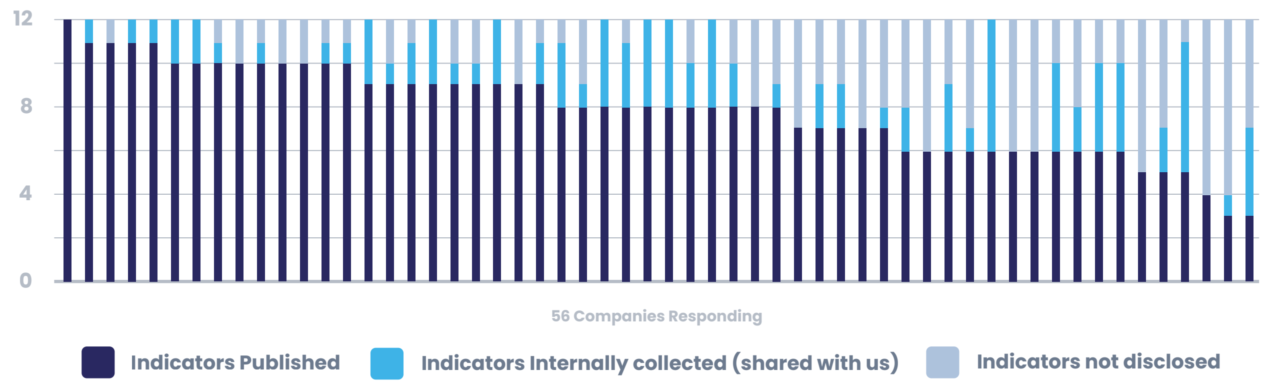
The 'S' in ESG: This enhanced and standardized transparency should offer investors, regulators and consumers simpler and more consistent data to understand and compare ESG impacts of company activities.

The Corporate Sustainability Reporting Directive, adopted by the EU Commission in April 2021, is a significant regulatory framework to modernise and strengthen social and environmental information disclosure by companies. Starting in 2025 (for financial year 2024), companies will be required to report up to **1,100 data points.** These standards will apply to all public companies ranging from micro-enterprises to the largest companies that meet any two of three conditions: 1) €50 million in net turnover/revenues, 2) €25 million in assets, or 3) 250 or more employees. In addition, non-EU companies revenues in the EU or €150 million or more will also have to comply. **We estimate that 50,000 companies in Europe will be required to comply with the CSRD, including the 67 companies targeted by our engagement.**

It is noteworthy that ten of these Key Performance Indicators (KPIs) we requested align with the requirements outlined in the *ESRS 2: General Disclosures*, which is mandatory disclosure, and the *ESRS S1: Own Workforce*.[9]

Figure 4:
Indicators Disclosed Prior to CSRD

Across 56 Engagement Targets



Source: Candriam

Source: Candriam

Figure 5:
KPIs Collected and Pending EU Reporting Requirements

	Key Performance Indicators (KPIs)*	Inclusion in ESRS	ESRS Reference
Workforce Stability	Total Workforce (Headcount)	✔	ESRS 2, SBM-11 & ESRS S1-6
	Workforce Growth Rate (% YoY)	✔	
	Voluntary Turnover Rate	✔	ESRS S1, S1-6
Workplace Demographics	Women in the Workforce (%)	✔	ESRS S1, S1-6
	Women in Management (%, New KPI for Stage 2)	✔	ESRS S1, S1-9
	Part-time Workers (%)	✔	ESRS S1, S1-6
	Temporary Workers (%)	✔	ESRS S1, S1-7
Workforce Development	Employees Covered by Annual Evaluation (%)	✔	ESRS S1, S1-13
	Internal Mobility Rate (%)	✘	ESRS S1, S1-1 (voluntary)
	Training, Avg .Hours per Employee per Annum	✔	ESRS S1, S1-13
Employee Engagement	Employees Covered by Collective Bargaining (%)	✔	ESRS S1, S1-8
	Absenteeism Rate (%)	✘	No precise reference

*Ten original KPIs (plus the calculation of Workforce Growth from the total workforce KPI), plus a new KPI of Women in Management during the second phase.

Although the European Commission will permit some delay in disclosing certain details (social protection, people with disabilities, work-related illnesses and work-life balance) in the first year of reporting and initially even more lenient for smaller companies of fewer than 750 employees, these special exemptions will be phased out from 2025. These indicators, encompassing aspects such as workforce stability, demographics, development, and employee engagement, are integral components of the CSRD framework. Therefore, companies will need to ramp up their data collection systems now, financial year 2024.

To assess companies' preparedness to CSRD, we specifically selected KPIs that are aligned with current (eg, Global Reporting Initiative) and forthcoming (eg, CSRD) disclosure requirements. This serves two purposes: It helps us assess the preparedness of the companies to meet CSRD reporting requirements; and provides a data basis today for this future reporting.

Among the companies which responded in our Engagement Campaign, one company stands out for its comprehensive public disclosure, publishing information on all 12 of the HCM-related KPIs we examined. Four additional companies demonstrate a notable degree of transparency, publishing information on 11 of the 12 KPIs in public reports. Of these, three provided data on the missing KPI when requested, confirming their willingness to share information and their preparedness for CSRD.

Next steps?

We are committed to ***proactive*** ESG risk management – and opportunities. In this planned, topical campaign we conducted a comprehensive evaluation of Human Capital Management (HCM) performance across a targeted group of SMID companies. Examining human capital management in rapidly-growing companies lead to the identification of potential adjustments in our ESG rating model. **Notably, we have pinpointed 12 issuers for potential downgrades in our ESG rating system, reflecting specific concerns within their HCM strategies. Conversely, three companies are recognized for their exceptional performance and have been recommended for potential upgrades.**

The systematically collated data is shared with the ESG Research Team as well as the Fundamental European Equity Portfolio Management Team. This dataset serves as a step for our ESG evaluation of companies within each analyst's sectoral coverage. The integration of this information into both types of assessments contributes to a more nuanced understanding of ESG and factors and other fundamentals, enhancing the accuracy of our overall investment evaluations.

With the imminent implementation of the Corporate Sustainability Reporting Directive (CSRD), companies are poised to face significant challenges in reporting their ESG data comprehensively. The hurdles include establishing systems to track Key Performance Indicators (KPIs) and being prepared to report within the mandated time frame. Ironically, the reporting adds to the strain on both financial and human capital resources for these smaller companies..

Companies
are Not Prepared

Contrary to the general expectation of a gradual improvement in public disclosure practices over time, our findings indicate a **lack of meaningful progress among the SMID companies in enhancing their data collection and disclosure practices.** Some companies have made notable strides in enhancing their disclosure practices, while others have exhibited alarming declines.

This revelation underscores a critical juncture for these companies as they grapple with the impending CSRD requirements. The challenges extend beyond mere compliance; they encapsulate the essence of effective governance, transparency, and responsible business practices. As the regulatory landscape evolves, the preparedness of SMID companies becomes pivotal for compliance, for upholding their commitment to sustainability, and for investment risk.

Support,
Rather than Exclusion

The ongoing engagement initiatives and collaboration with ESG analysts play a pivotal role in addressing concerns and fostering improvements. Our approach not only aligns with our broader goal of promoting responsible business practices but, we hope, contributes to the sustainable development of our investee companies.

We are committed to stepping up our direct engagement with the 12 companies on the watchlist. This includes follow-up, establishing a platform for a thorough examination of concerns, addressing specific HCM-related issues, and sharing best practices. Our aim is to facilitate a productive two-way exchange of information and insights, fostering a mutually beneficial dialogue among stakeholders.

We commend companies for their efforts to improve both transparency and practices. If we remain invested, it is because we believe in their capacity to achieve Sustainable performance. At Candriam we are active owners and debtholders. We exercise our rights when we believe actions are needed to create long-term value for our clients and ultimate beneficiaries. We will divest when necessary, but we prefer to identify companies with potential to generate Sustainable benefits and to accompany them in their growth.

Candriam has been at the forefront of sustainable investing for more than 25 years. We integrate Environmental, Social and Governance (ESG) factors into our investment decisions. We have a strong expertise in analysing and investing in Small and Mid-sized Capitalization (SMID) issuers. Our investment processes are characterized by a specialized focus on non-financial indicators, showcasing our distinct expertise in the domain. Human Capital Management (HCM) performance is a crucial indicator within this non-financial analysis, indicating the potential for long-term sustainability and resilience of a company in the face of challenges posed by ever changing and competitive labor market.

Annex I: Methodology and Definitions.

Data Collection

We collected initial information on the KPIs from the annual reports of the targeted companies, as well as their sustainability reports, websites, and other published disclosures.

- This information was added to our proprietary ESG database, along with Global Reporting Initiative definitions and its reference in the ESRS standards. We produced a spreadsheet of public data to share with the targeted companies.
- Through dialogues with the companies, the teams confirmed, edited, and added to the published data.

Data Analysis

- We began analysing the data at the beginning of December 2023, to observe the evolution of the indicators and trends in public data disclosure, as well as observe the progress the companies have made in their human capital management practices over the past three years, especially post Covid-19. In some cases, we engaged again directly to clarify responses and follow up with qualitative explanations.

Next Steps

- We will continue to engage with at least the 12 companies on the ‘watch’ list, based on the findings, through contact with the companies including both the relevant ESG analysts and portfolio managers.

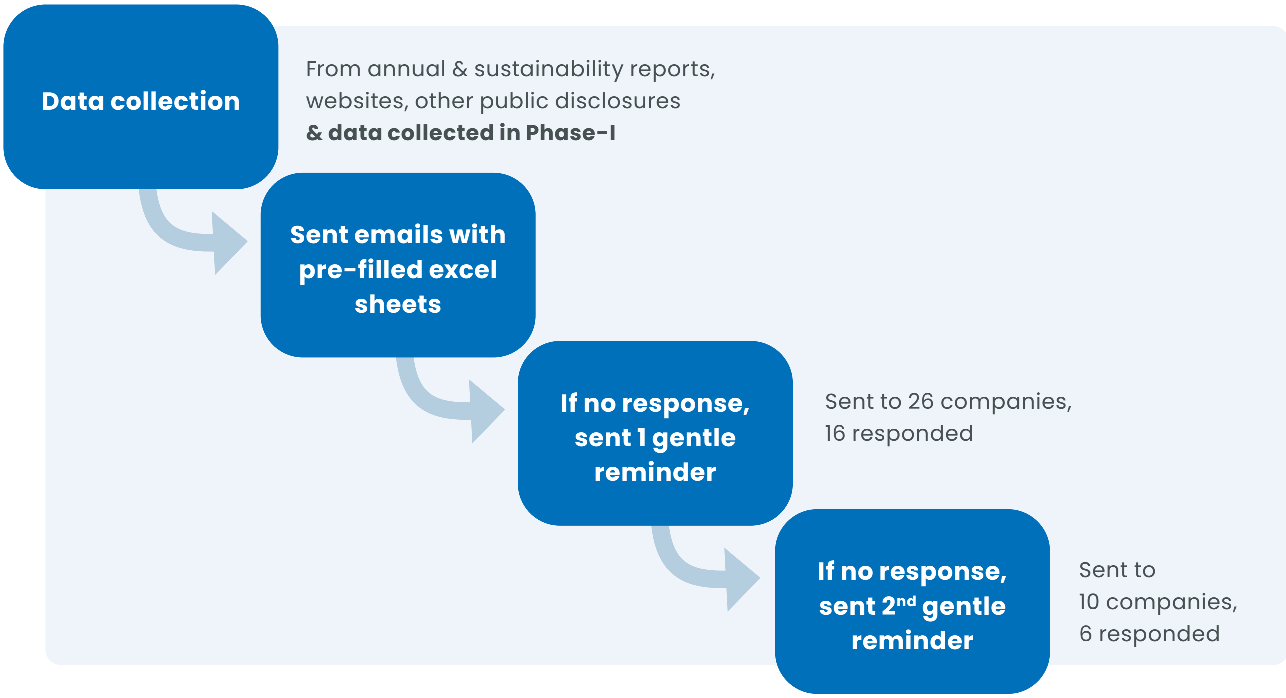


Figure 6:
KPI Definitions and Alignment with EU Standards

KPI's Key Performance Indicators	**Global Reporting Index**	**ESRS Reference** (European Sustainability Reporting Standards, the technical rules of the CSRD, or Corporate Sustainability Reporting Disclosure)
Total Workforce (Headcount)	The total number of persons working for the organization at the end of the reporting period (that is, the sum of all employees and supervised workers).	All employees who perform work for any of the undertaking's entities (eg, company's entities) included in its sustainability reporting
Workforce Growth Rate (% YoY)	Percentage of change in the total workforce between two consecutive financial years.	
Voluntary Turnover Rate	Number of employees voluntarily leaving the company during the year compared to the average number of employees during the same year.	Reference in ESRS: The aggregate of the number of employees who leave voluntarily or due to dismissal, retirement, or death in service (page 38).
Women in the Workforce (%)	Percentage of women employees in the total workforce.	
Women in Management (%)	The percentage of women in management positions including senior and junior managerial positions	According to ESRS, for disclosure of gender diversity in senior management, the undertaking shall use the definition of top management as one and two levels below the administrative and supervisory bodies (Page 40). Thus, for this KPI, the undertaking must disclose the percentage of women at both the senior (reporting to executives) and junior levels (team managers). It can also use the definition of top management it has already defined in its operations.

KPI's Key Performance Indicators	**Global Reporting Index**	**ESRS Reference** (European Sustainability Reporting Standards, the technical rules of the CSRD, or Corporate Sustainability Reporting Disclosure)
Part-time Workers (%)	A 'part-time employee' is an employee whose working hours per week, month, or year are less than 'full-time'.	An undertaking may report by head count, or by full time equivalent (FTE) of part-time employees. Definition of part-time employee could vary according to the country of operation, hence, the undertaking shall use the definitions as per the national laws of the countries where the employees are based to calculate country-level data (page 37).
Temporary Workers (%)	A temporary employment contract is of limited duration and terminated by a specific event, including the end of a project or work phase or return of replaced personnel.	Definition of temporary employee could vary according to the country of operation, hence, the undertaking shall use the definitions as per the national laws of the countries where the employees are based to calculate country-level data (page 37).
Employees Covered by Annual Evaluation (%)	Regular performance and career development review based on criteria known to the employee and his or her superior. *Note 1: The review is undertaken with the knowledge of the employee at least once per year.* *Note 2: The review can include an evaluation by the employee's direct superior, peers, or a wider range of employees. The review can also involve the human resources department.*	The percentage of employees that participated in regular performance and career development reviews which can include an evaluation by the worker's direct superior, peers, or a wider range of employees, including the HR Department (Page 41).
Internal Mobility Rate (%)	Total of movements (transfer, promotion, demotion) in the organization expressed as a percentage of the average number of employees.	Reference in ESRS: The undertaking must disclose up-to-date records on recruitment, training and promotion that provide a transparent view of opportunities for employees and their progression within the undertaking (Page 30).
Training, Avg. Hours per Employee per Annum	Average hours of training that the organization's employees have undertaken during the reporting period.	The average number of training hours per person for employees.
Employees Covered by Collective Bargaining Agreements	Binding collective bargaining agreements include those signed by the organization itself or by employer organizations of which it is a member. These agreements can be at the sector, national, regional, organizational, or at workplace level.	The percentage of employees, non-employee workers, and own workers out of the total workforce covered by collective bargaining agreements (page 39).
Absenteeism Rate (%)	Measure of actual absentee days lost, expressed as a percentage of total days scheduled to be worked by workers for the same period.	Following similar calculation as mentioned in GRI correspondence column, the undertaking shall count the number of days lost as such that the first full day and last day of absence shall be included. (page 43).

Source: Candriam

Annex II: Detailed KPI Analysis.

Figure 7:
Summary of Results

	KPI's	Disclosure Rate	Trend in Transparency
	Workforce Stability		
1	Total Workforce	100%	Improved
2	Workforce Growth		NA
3	Voluntary Turnover Rate	72%	Improved
	Workforce Demographics		
4	Women in the Workforce	98%	Improved
5	Women in Management	89%	NA -- new metric
6	Percentage Part-time Workers	53%	Declined
7	Percentage Temporary Workers	39%	Declined Sharply
	Workforce Development		
8	Annual Evaluation	36%	Improved Sharply
9	Training Hours	58%	Declined
10	Internal Mobility	23%	Declined
	Employee Engagement		
11	Collective Agreements	51%	Improved
12	Absenteeism	68%	Improved

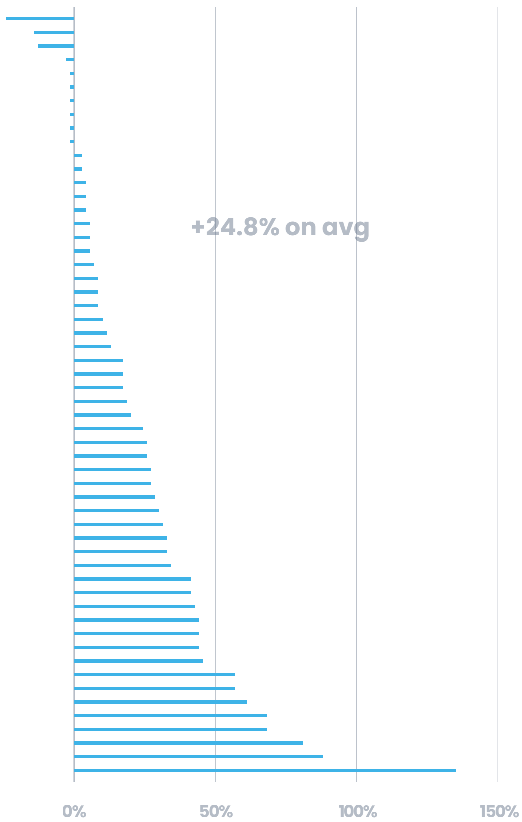
Workforce stability

Workforce Growth

The growth in workforces between 2020 and 2022 appears to have stabilized following Covid-19, but remains strong at 24.8% for 2022 (versus 28% for 2020). A majority of companies in our sample accelerated their workforce growth between 2020 and 2022. Given the pandemic, this figure does not offer much information as an average and requires individual consideration. As one might expect, some of the smaller companies have grown substantially, exhibiting the strongest growth rates.

Figure 8:
Workforce Growth 2020 to 2022

(Disclosure rate: 100%)



Source: Candriam

A notable number expanded substantially, indicating a broad recovery and dynamic job market. However, a segment of the SMID firms, particularly in the banking and insurance sectors, faced challenges, as evidenced by minimal growth or even declines in their headcounts.

For a number of companies, the substantial increase in the workforce was accompanied by a significant increase in their revenue growth, exceeding 200% in some cases. The high growth in could be directly attributed to an increase in productivity, market expansion, and diversification of products and services catalysed by additional hiring. For these companies, the major challenge lies in retention of workforce, which could be facilitated through investment in training, regular appraisals, competitive compensation packages, and fostering a positive work culture.

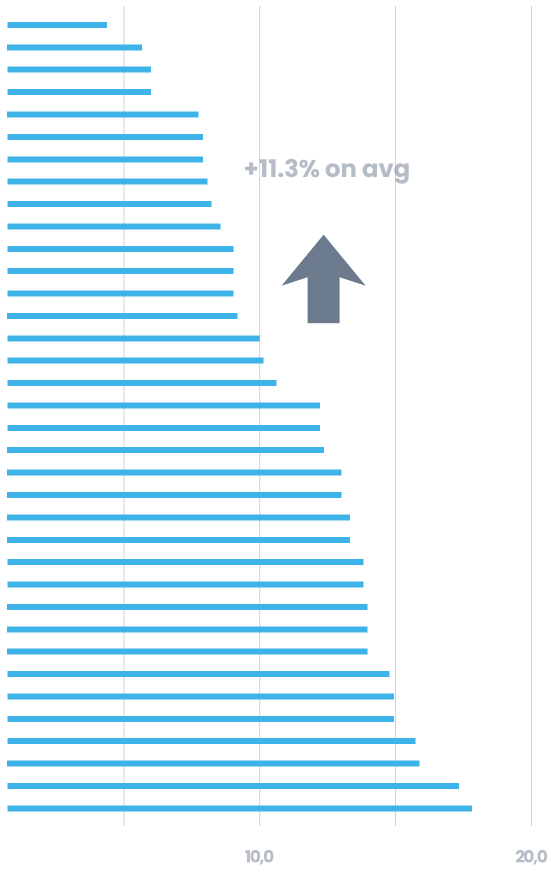
The overall growth in workforces, especially after the challenges posed by the pandemic, demonstrates resilience and adaptability by the SMID companies in our sample to the changing business conditions and competitive labour market.

Voluntary Turnover

Workforce turnover is a crucial indicator of the quality of workforce management, impacting continuity and institutional knowledge within the company. A low turnover rate is generally associated with greater workforce stability while a high voluntary turnover rate suggests dissatisfaction and difficulties in talent retention. Although high employee turnover is usually perceived negatively, it can also introduce fresh talent, promoting creativity, skill enhancement and enabling companies to reorganize in response to evolving business conditions.

Figure 9:
Voluntary Turnover 2022

(Disclosure rate: 72%)



Source: Candriam

Nevertheless, **voluntary turnover above 10%** (depending on the industry) may indicate issues with work culture, job satisfaction, or opportunities for professional development. Among our sample, the overall **voluntary turnover rate rose from 8.3% in 2020 to 11.2% in 2022**, with the highest reported rate at 17.85%.

In certain companies, the substantial workforce growth was accompanied by a notable increase in the rate of voluntary turnover, signalling challenges in retaining talent and raising serious concerns about the sense of attachment employees feel for these SMID companies. This combination could potentially affect productivity.

Additionally, employees might opt to leave a company experiencing rapid growth, as the transition from a startup environment to a more structured organizational setup might reduce the sense of belonging. This presents a significant challenge for companies in attracting new employees with comparable skills and knowledge.

Workforce Demographics

Women in the Workforce

A diverse workforce brings a variety of perspectives, ideas, and skills that can contribute to innovation and problem-solving. This applies well beyond gender diversity, of course. Tracking the representation of women in the workforce is a key measure of diversity and inclusion, [How diversity, equity, and inclusion (DE&I) matter | McKinsey][10]

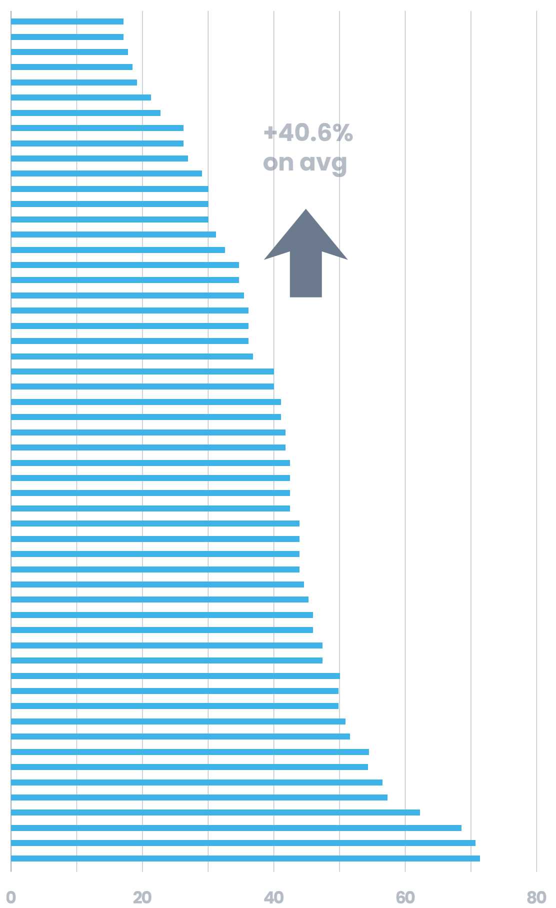
As the second-most-reported KPI in published disclosures, the targeted companies seem to understand the importance of gender diversity as a key metric.

The percentage of women employees in our targeted companies rose from 39% in 2020, to 40.4% by 2022. This represents a positive stride towards achieving gender balance at workplace. However, depending upon the sector, some companies had representation of women as high as 72% while for others, women represented less than 20% of the workforce.

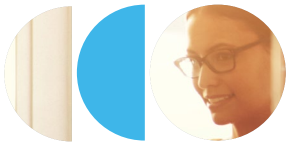
Nonetheless, a high representation of women in workforce does not necessarily guarantee career progression for them.

Figure 10:
Women in the Workforce

(Disclosure rate: 98%)



Source: Candriam



Women in Management

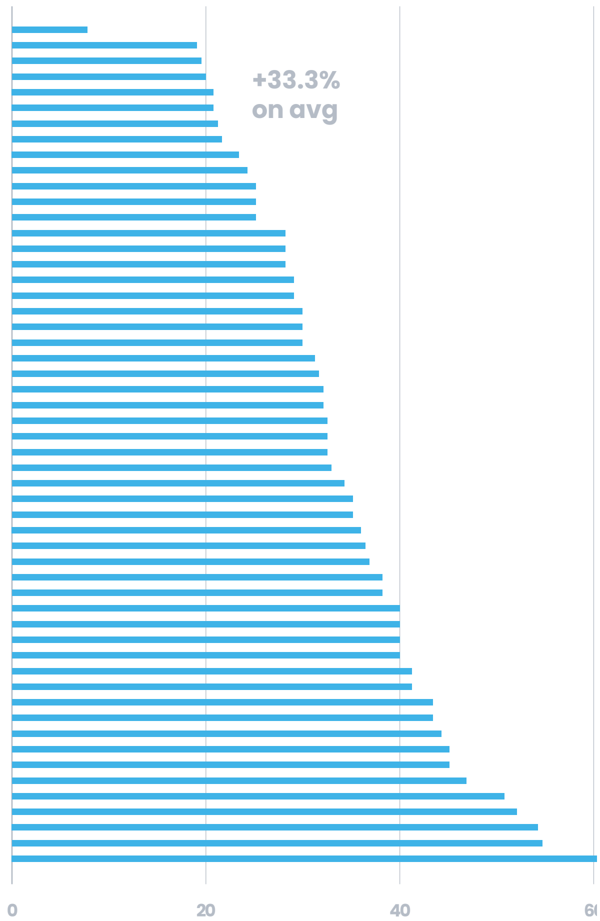
We placed particular emphasis on how SMID companies provide access to higher positions for women. We specifically asked the companies provide data on women in both the senior management positions, as well as junior positions below Board of Director and C-Suite Executive level.

On average, those companies responding reported 32.9% of management positions are held by women, similar to the level in 2020 (32.7%). This significantly affects the 'Equal Opportunity Ratio'[11] among the targeted SMIDs.

On a positive note, more than have of the companies who provided information reported that women held between 30-50% of management positions.

Figure 11:
Women in Management 2022 (new metric in second phase)

(Disclosure rate: 89%)



Source: Candriam

Diversity and Advancement

Notably, entities with a higher representation of women in their workforce simultaneously exhibited an higher presence of women in managerial positions. This correlation signifies a noteworthy stride towards fostering gender equality and providing increased opportunities within these organizations.

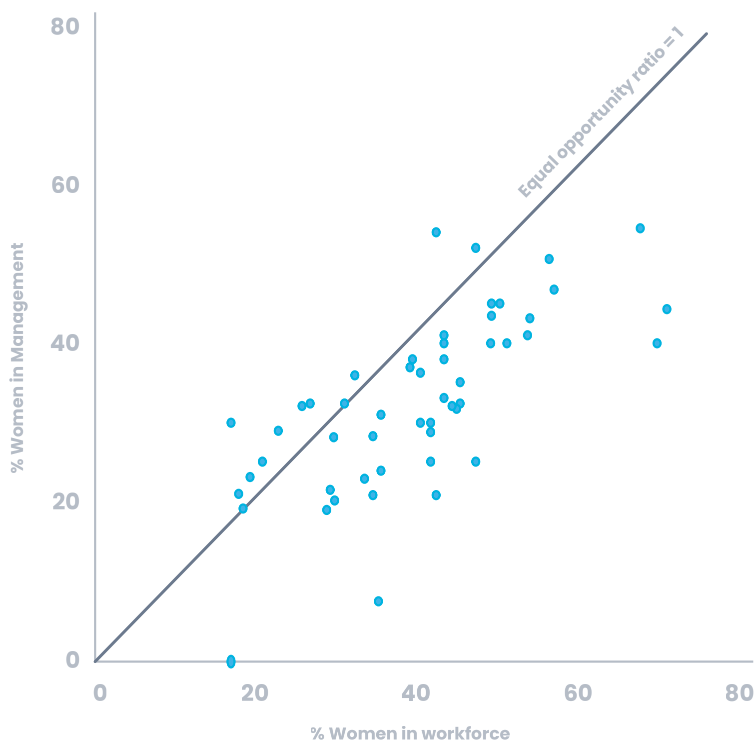
The availability of gender diversity data permits the analysis not just of the overall workforce, but the opportunities available – some might argue, an index of true diversity. The correlation between the percentages of females in the workforce and occupying managerial roles stands out prominently within the SMID companies.

In Figure 12, the **blue line** shows 'true' diversity (that is, the same percentage of woman at upper levels as are represented in the full workforce).

To delve deeper into our assessment of equitable career prospects, we calculated the Equal Opportunity Ratio (EOR) to ascertain whether the SMID companies in our sample display a notable bias towards men.

Figure 12:
Equal Opportunity Ratio 2022

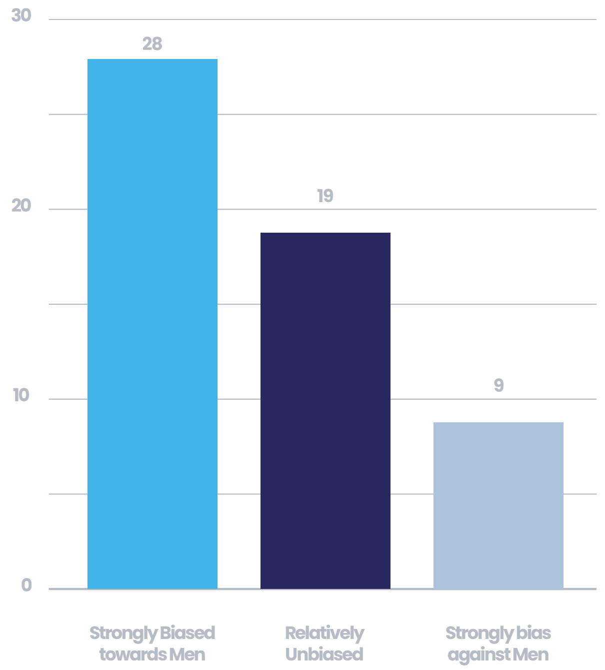
Women in Management (%) vs Women in the Overall Workforce (%)



Source: Candriam

Among the 56 companies responding, 28 demonstrated a pronounced over-representation of men in senior positions relative to the overall workforce composition – that is, half of the companies who responded. Conversely, the remaining 28 companies appeared to offer more equitable opportunities, and in some cases, enhanced opportunities for career progression for and internal mobility for women.

Figure 13:
Equal Opportunity Ratio 2022



Source: Candriam

Although SMID companies are making advancements in fostering gender-inclusive practices to achieve workforce parity, our analysis underscores an overall need to accelerate their practices. A significant proportion of these companies still exhibit biases in career progression opportunities. Embracing diversity and actively promoting equal opportunities remains pivotal not only for workforce development but also to enhance business productivity.[12]

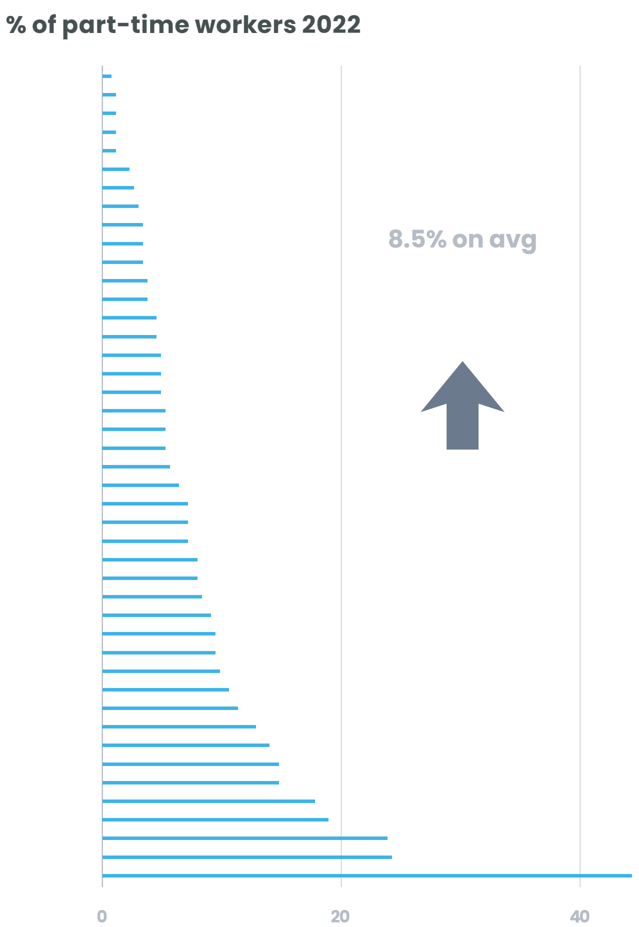
Percentage of Part-time workers

Both the percentage of part-time workers, and temporary workers, suffered a surprising reduction in disclosure.

About half the sample, or 53%, published their rate of part-time employees, with another 25% disclosing the data only upon request – for a total of 78% providing this data.

The average percentage of part time workers among the workforce increased slightly from 8.4% to 8.7% over the past three years. Despite notable differences in the percentage of part-time workers among the companies, this consistent average suggests overall stability in the utilization of part-time employment arrangements across the SMID companies.

Figure 14:
Part-time Workers 2022



Percentage of Temporary workers

The figures for temporary workers saw the highest reduction in public disclosures among our chosen KPIs. Depending upon the industry, there could be multiple reasons -- changes in workforce management strategy, cost reduction measures, or public image, among others.

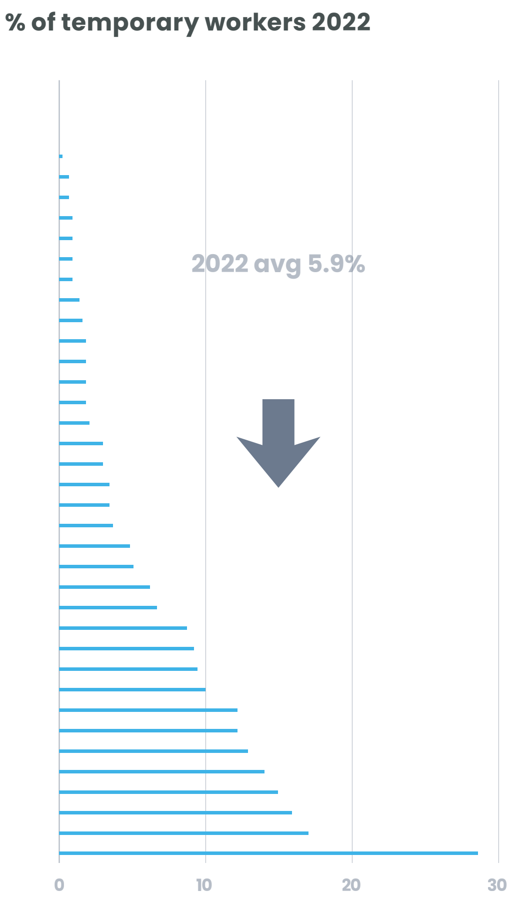
The overall temporary worker data provided averaged 5.6% of the workforces. However, only 17 companies reported data for both 2020 and 2022. For these companies, **the average proportion of the workforce provided by temporary staff declined from 7.6% to 7.2%.**

For three companies, we observed both a workforce composed of more than 12% temporary workers, and concurrently, very high absenteeism -- raising concerns about employee engagement.

A higher percentage of temporary employees does not by itself necessarily indicate instability or inefficiency within an organization, or difficulties in recruitment. Instead, it could be a strategic measure to deal with specific business environments, seasonal fluctuations in product demands, and sometimes, simply recruitment based on specialized skill requirements or short-term projects.

On the other hand, when cyclicality or other business issues do not justify a high percentage of temporary employees, this type of workforce composition could lead to a loss of motivation and engagement, elevated training costs, and disruption in productivity.

Figure 15:
Temporary Workers 2022



Source: Candriam

Workforce Development

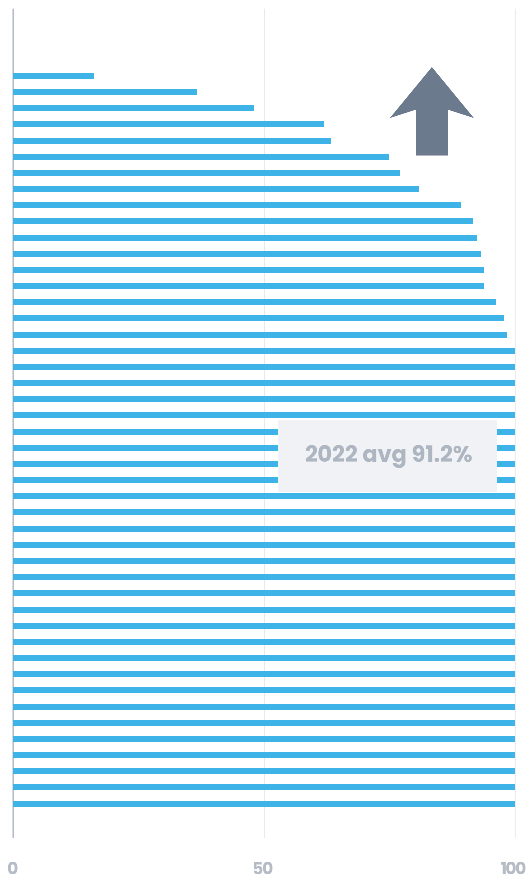
Employees covered by Annual Evaluations

Annual performance evaluations, along with training and internal mobility, are an important foundation for workforce development. Not only does this process provide employees with avenues for career progression but it also help companies retain talent.

Out of the 42 companies that provided information, 26 indicated that all of their workforce undergo annual performance evaluation.

Figure 16:
Employees covered by Annual Evaluations

% of employees covered by annual evaluation (Disclosure rate: 64%)



Source: Candriam

The overall disclosure rate on employee coverage by annual evaluation is commendable at 81% (that is, additional companies provided information upon request). Of the responding companies, only four companies covered less than 75% of their employees. These strong figures demonstrate that SMID companies give serious consideration to such evaluations. Between 2020 and 2022, the average coverage improved further, from 88.7% to 91.2% .

Remarkably, the size of the company does not correlate with annual evaluation coverage. Even the smallest seven of the responding companies (with workforces of fewer than 600 employees) included all of their employees in an annual evaluation process.

Average Training Hours per Employee

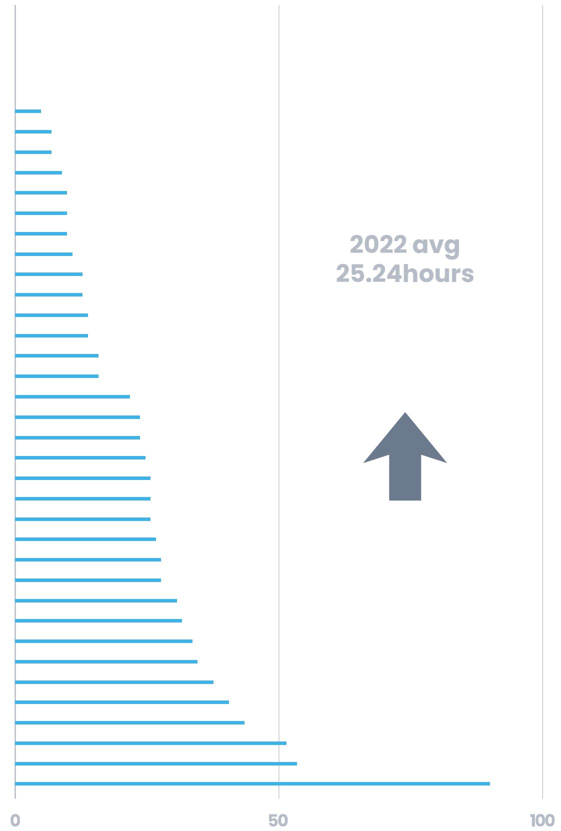
An important indicator of talent development, average training hours per employee is a challenging indicator as it may encompass informal learning, varied learning formats, remote learning, and compliance trainings. Moreover, training hours may vary significantly depending upon the industry, as some industries may have more required training than others for regulatory reasons.

Although the transparency rate of training hours decreased slightly compared to 2020, **the average training hours per employee increased from 23.1 hours in 2020, to 25.2 hours** in 2022. However, there were significant outliers with some companies communicating data equivalent to several weeks of training hours, which we question.

For all these reasons, analysing training hours on a case-by-case basis provides valuable understanding, with variations potentially explained by specific projects, the implementation of new software, or the introduction of new procedures, making it an particularly insightful metric.

Figure 17:
Average Hours of Training 2022

(Disclosure rate: 58%)



Source: Candriam

Internal Mobility Rate

For SMID companies, internal mobility can provide a true competitive advantage. An effective internal mobility path can foster talent development, retention, cost savings, knowledge retention and a positive brand image.

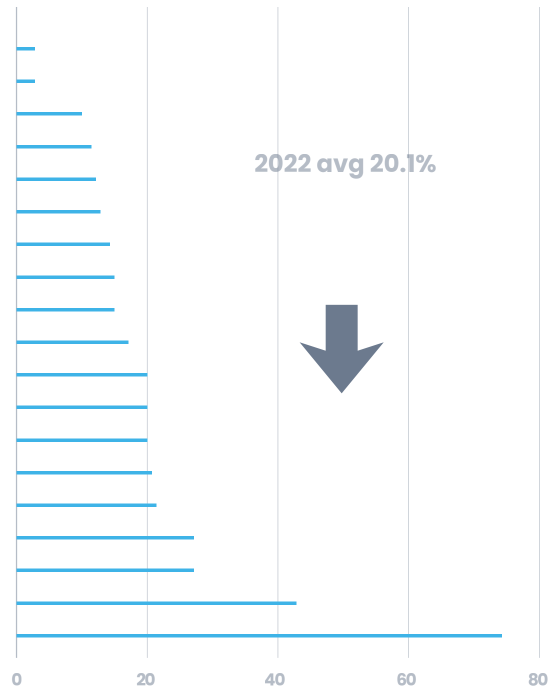
Only 22 companies disclosed their internal mobility rate. For these companies, the average stands at 20.1%.

Drawing definitive conclusions from this dataset proves challenging due to its small sample size. Furthermore, ambiguity in the definition couple with sensitivity of organizational information may also be factors behind lower disclosure of internal mobility.

To enhance disclosure of and performance on internal mobility, it is important to establish standardized data collection practices. By developing a common understanding of internal mobility, companies can design policies, enhance transparency, and make better-informed assessments of workforce dynamics.

Figure 18:
Internal Mobility 2022

(Disclosure Rate: 23%)



Source: Candriam

Employee Engagement

Employees covered by Collective Bargaining Agreements
(Disclosure Rate: 51%)

For SMID companies, employee coverage by collective bargaining agreements can be vital, ensuring harmonious labour relations and a stable work environment with accessible conflict resolution. However, the presence of such agreements greatly varies among countries: Coverage tends to be low in countries where collective bargaining is negotiated at the company level while higher rates are observed in countries where sector-level collective bargaining is dominant. Out of the 40 companies that provided information on the proportion of employees covered by collective bargaining agreements, ten companies indicated that all of their staff, or 100%, were covered by such agreements while nine mentioned a complete absence of collective agreements.

For those companies reporting data for both 2020 and 2022, **the average increased slightly from 55.2% to 56.8%** between these years. Overall, the average of workforce covered by collective bargaining agreements among the responding companies was 51.3%.

Combining the companies which published with those who provided data on request, we collected from 76% of the sample. Yet, drawing conclusive insights is challenging due to variations in regulations on collective bargaining across countries. Interpreting the data requires careful consideration of the diverse legal frameworks governing collective bargaining practices.

Absenteeism

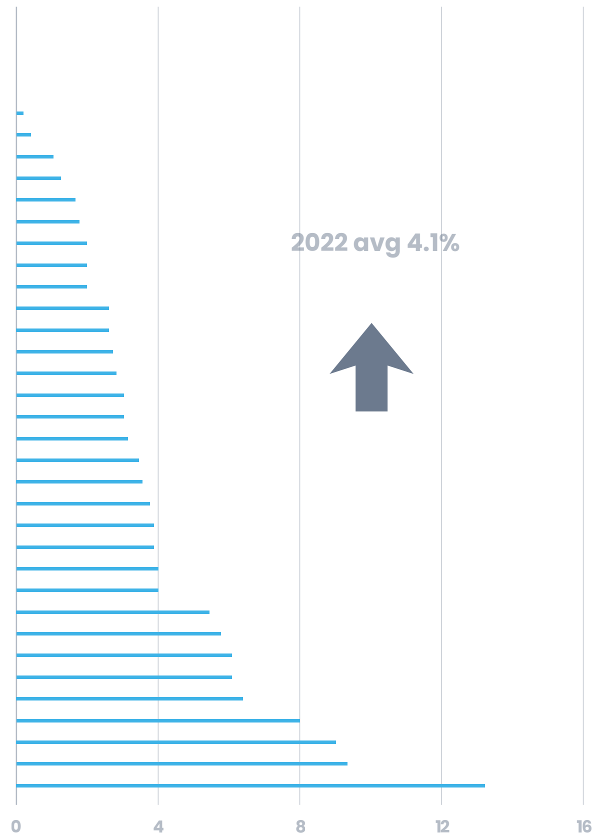
The absenteeism rate can be a direct indicator of employee engagement and morale, job satisfaction and overall well-being at workplace influencing performance and productivity. For SMID companies, loss of productivity and business continuity can significantly hamper their potential to capitalize on growth opportunities.

Gathering information on absenteeism proved rather challenging. Companies usually provide information on health and safety indicators for lost days such as Lost Time Incident Frequency Rate, Lost Time Injury Rate, etc. Combining both published data and internal collection of data, we were able to collect absenteeism figures for 70% of the companies. Between 2020 and 2022, the average absenteeism rate increased from 3.5% to 4.1% signalling an urgent need to address the root causes leading to such an increase.

Such workplace concerns can be effectively addressed through the presence of collective bargaining agreements by negotiating leave policies, wellness and accommodation programs, worktime flexibility, incentive plans and effective dispute resolution platform.

Figure 19:
Absenteeism 2022

(Disclosure rate: 88%)



Source: Candriam

Notes & References.

1 As of 30 September, 2020.

2 Candriam, January 2022.
Human Capital in Small and Mid-Sized Firms: Active Engagement.

3 As of 30 September, 2023.

4 The ESRS, or European Sustainability Reporting Standards, is a set of 12 standards which are part of the CSRD, or EU Corporate Sustainability Reporting Directive.

5a 5a. European Union Labour Force Survey, accessed 10 February, 2024.
Job Turnover | CEDEFOP (europa.eu)

5b Apologies to George Orwell, *Animal Farm*, 1945.

6 Q&A adoption of European Sustainability Reporting Standards (europa.eu)

7 McKinsey & Company. Diversity wins: How inclusion matters. May, 2020. Accessed 2 February, 2023. 2021_01_diversity_en_web.pdf (candriam.com)

8 For more on this, see Candriam's White Paper, Ethnic Diversity: Why Investors Cannot Afford to Remain Silent, January 2021

9 The ESRS, or European Sustainability Reporting Standards, is a set of 12 standards which are part of the CSRD.

10 For example, some countries have privacy laws prohibiting employers from asking some of these questions.

11 That is, the representation of a group at all levels of a company, not just as a percent of total.

12 McKinsey & Company. Diversity wins: How inclusion matters. May, 2020. Accessed 2 February, 2023.

€144 B

AUM at end
June 2023*

+600

Experienced and
committed professionals

+ 25 years

Leading the way in
sustainable investing

CANDRIAM. INVESTING FOR TOMORROW.

WWW.CANDRIAM.COM

CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY