10-K HUMAN CAPITAL DISCLOSURE AND EMPLOYEE TURNOVER

BY

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I. INTRODUCTION

On August 19, 2019, 181 CEOs of America's largest corporations overturned a 22-year-old policy statement that defined a corporation's principal purpose as maximizing shareholder return. In its place, the CEOs of Business Roundtable adopted a new Statement on the Purpose of the Corporation (BRT Statement, hereafter). Among other things, these CEOs declared they would invest in their employees. This would require CEOs to compensate employees fairly and provide important benefits; support them through training and education; and foster diversity and inclusion, dignity, and respect (Business Roundtable 2019).

Companies frequently disclose this human capital information in their annual 10-K reports. While Raghunadan and Rajgopal (2021) find that the signatories of the BRT Statement perform far worse on several environmental and labor-related dimensions, it is unclear whether the actual 10-K discussion of employees is credible communication or "cheap talk." If this is credible communication, I would expect these companies to be less likely to terminate their employees, particularly in the event of revenue decline. First, if human capital disclosure is credible communication, then these companies likely invest significant resources in their employees, which may make them more reluctant to terminate. Second, employees at the company may view terminations as a violation of company disclosure which could result in employee unhappiness and reduced morale. Therefore, I investigate whether companies with higher level of human capital disclosure are less likely to terminate employees in the event of revenue decline.

This topic is of interest not only to researchers, but to regulators and investors as well. Although there is a growing demand for more information on firms' environmental, social, and governance (ESG) activities and policies (Christensen et al 2021 RAST; Cohen et al 2015;

Amel-Zadeh and Serafeim 2018), investors complain about a lack of verifiable information (Bernow et al 2019). This topic is also of interest to regulators. Recent passage of Regulation S-K requires firms to disclose human capital resources that are material to an understanding of the company's business (SEC 2020, Item 101(c)). It is important to determine whether these disclosures are credible communication or "social washing" (Goldman and Zhang 2022).

To investigate this, I create a measure of human capital disclosure using word counts in Item 1 of 10-K filings from 2009 – 2019. The word list used in the word count consists of words that indicate companies are talking about their employees, detailing their treatment, and describing the work environment. I also create several measures of layoffs using restructuring charges and percent change in the number of employees. I find that firms with the highest amount of human capital disclosure are more likely to conduct layoffs than firms with the lowest amount of human capital disclosure.

As an additional test, I compare employee changes during revenue increasing periods versus revenue decreasing periods as human capital disclosure increases. I first regress number of employees on revenue while including a moderating dummy variable for revenue decreasing periods. This allows me to measure the employee change in response to a revenue increase versus a revenue decrease. Second, I add another interaction for human capital disclosure to determine if firms with high human capital disclosure differ in their response to revenue changes.

Without the interaction of human capital disclosure, I find that firms have an asymmetric response to revenue changes in respect to their employees. During revenue decreasing periods, firms reduce their employees at a much higher rate than they increase their employees during revenue increasing periods. When the interaction of human capital disclosure is added, I find that firms with the highest human capital disclosure increase employees at a higher rate during revenue increasing periods, but respond similarly to firms with low human capital disclosure during revenue decreasing periods.

Taken together, the results suggest that human capital disclosure has no effect on employee reduction decisions, but does indicate firms who will respond by hiring employees when revenue is increasing.

This study contributes to the literature investigating the reliability of firm disclosure. Specifically, this study suggests that human capital disclosure is not a reliable indicator of employee retention decisions.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

In this study, I investigate the possibility that firms who have high human capital disclosure in their 10-K follow through on those statements by holding on to unutilized labor resources (employees) in the face of economic decline.

Human capital disclosure

Until recently, human capital disclosure in the 10-K filing has been mostly voluntary. Since 2005, the only 10-K filing requirement has been to list the number of employees. Within the last few years, investors have increasingly raised concerns about the adequacy of the SEC's human capital disclosure requirements and rank human capital as the most important topic when engaging companies for additional information (Haslag et al 2022; Demers et al 2022). Increased investor interest in human capital disclosure is due to many factors, ranging from maximizing shareholder return to nonfinancial reasons such as rising concerns over social justice issues in recent years (Demers et al 2022; Bourveau et al 2022).

In response to investor pressure, the SEC passed Regulation S-K (hereafter Reg S-K) which requires public companies to describe their human capital resources and risks in the 10-K filings. Importantly, the SEC adopted a principles based approach and provided firms with the latitude to determine materiality (Bourveau et al 2022). The new rules, which came into effect in November of 2020, adds human capital disclosure as a topic under Item 101(c) and most of these disclosures are contained in Item 1 (Business) of the 10-K (Bourveau et al 2022).

Disclosure theory

It is likely that firms who choose to disclose human capital information do so because they intend to follow through on their promises. Disclosure theory suggests that better CSR performers have incentives to disclose their better performance and worse CSR performers have incentives to hide their poor performance (Hummel and Schlick 2016). Clarkson et al (2008) find that firms that do better disclose more. Gao et al (2014) find that managers of CSR-conscious firms engage in less self-serving insider trading and are less likely to trade on future corporate news. There are two possible arguments for this result, both consistent with the arguments laid out in this paper. The first is the cost of insider trading is too large for firms who are high in CSR. Firms do not want to risk hurting the reputation they have built through their CSR (or disclosure of CSR) efforts. Or second, it could be a self-selection issue. Managers who desire to do good are attracted to firms who are high in CSR (or vice-versa) and thus refrain from insider trading due to a view that it is unethical. In this case, managers who desire to do good end up in firms that match their values.

Both of the above arguments indicate why a firm that discloses a high amount of human capital would want to follow through. First, the cost of not doing so is high. Firms who disclose their treatment of employees likely build a positive reputation that can have negative effects in the case of repeated occurrences of negative CSR events (Christensen, Hail and Leuz 2021). Furthermore, there is a cost to disclosure (Christensen, Hail, and Leuz 2021). Multiple audiences (competitors, suppliers, labor unions, etc.) can use the information provided in disclosure (Christensen, Hail, and Leuz 2021). Given the cost of disclosure, it is likely that any information disclosed by firms regarding their treatment of employees is true. Stakeholders may use the disclosed information to exert meaningful pressure on firms (e.g. reduce consumption, withdraw their business, divest their holdings, instigate activist campaigns). The stakeholder reactions to firm disclosures creates a feedback loop in which firms' response to anticipated or actual stakeholder responses (Christensen, Hail, and Leuz 2021). In other words, not following through results in stakeholder action that may either deter the lack of inaction in the first place or force the firm to adjust and respond to stakeholder complaints. Specifically, human capital disclosures in 10-K filings are subject to significant scrutiny. Corporate stakeholders, particularly employees with direct experiences with a firm's DEI commitments and initiatives, can observe the disclosures to determine if management is following through (Goldman and Zhang 2021). Consistent with this argument, Bourveau et al (2022) find evidence consistent with the risk of litigation reducing the amount of human capital information in regulatory filings and Haslag et al (2022) provides evidence that attraction and retention sections of human capital disclosures are informative of actual changes in the underlying human capital at the firm level.

Second, managers are likely attracted to firms that match their values which makes them likely to follow through on employee treatment disclosures. Furthermore, there is evidence to suggest that exposing managers to CSR information (or asking them to consider all stakeholders) improves their socially responsible behavior (Armstrong 1977).

All of this suggests that firms (and their managers) are likely to follow through on any disclosure detailing employee treatment and concern.

Social washing

With that said, the literature also seems to indicate that firms engage in greenwashing (or social washing in this case). Firms that are poor CSR performers have an incentive to provide positive disclosures to address the threats to their legitimacy from the underlying poor CSR performance (Christensen, Hail, and Leuz 2021; Cho and Patten 2007). Indeed, recent experience of a labor-related incident increases the probability of publishing ESG reports by 10%, suggesting that ESG scandals drive the decision to start communicating on the topic (Bourveau et al 2022).

Concerning the Statement on the Purpose of a Corporation, Raghunandan and Rajgopal (2021) find that the signatories of the statement publicly listed signatories of the BRT statement commit environmental and labor-related compliance violations more often (and pay more in compliance penalties), have higher carbon emissions, and rely more on government subsidies. They further state that preliminary evidence suggests the signatories did not sign the document as a credible signal of a future intention to improve stakeholder-centric behaviors.

In their review of mainstream literature, Goldman and Zhang (2021) report that critics are concerned that human capital disclosures reflect corporate social washing strategies to paint a socially conscious public image. However, they also note the potentially adverse consequences of social washing behavior such as frustrated employees and diminished firm value. They suggest the costs of social washing may be so high that they discourage social washing and incentivize firms to provide credible DEI disclosures.

Because the human capital disclosures are principles-based, there exists further opportunity for social washing since the disclosures mostly include hard-to-verify qualitative information (Goldman and Zhang 2021). This particularly pertinent as quantitative human capital disclosures are more informative for investors and facilitate the commitment mechanism of disclosure (Bourveau et al 2022).

Finally, the SASB points out that about 50% of SEC-registered companies provides generic or boilerplate sustainability information in their regulatory SEC filings (SASB 2017c).

Hypothesis

Disclosure theory suggests companies will disclose only those items they can plan to follow through. However, legitimacy theory suggests disclosure is a channel through which companies "cover up" otherwise bad behavior. There is also some evidence to suggest many of these disclosures provide boilerplate sustainability information in their regulatory filings. Therefore, I state my hypothesis in the null:

High human capital disclosure has no effect on employee turnover decisions.

III. METHODOLOGY

Sample selection and variable measurement

To determine my measure of employee concern, I use 10-K filings from the years 2009 – 2019. I use the clean 10-K filings from the WRDS database and limit my search to Item 1 of the

10-K, where the company describes their business. This is typically the section where companies detail their employees and the workplace environment.

I use the variables EMP (number of employees), XSGA (SG&A expense), SALE (sales revenue), SICH (SIC code), RCP (restructuring charges), and AT(total assets) from Compustat. I remove all observations with missing EMP or SALE for the current year and the previous year and whose XSGA exceeds SALE (Anderson et al 2003).

I use a word count / keyword search approach to determine the amount of human capital disclosure. To determine the list of words used in the word count, I read several 10-K's and identified the words related to human capital. This includes words such as "family", "culture", "representation", but also includes simple words such as "employee" and "workforce". This captures both firms that talk about their employees more and who detail their intended treatment of their employees. The full list of these words is in Appendix A. In Appendix B, we also provide a sample 10-K for a firm that is high in this measure of human capital disclosure.

I have several variables of interest. *Humancap* is the count of the number of words from the word list (See Appendix B) that occur in the filings. To make the results more interpretable I also create the variable *humancapmodel* by grouping all filings within one digit SIC and fiscal year and dividing them into quintiles. The quintile with the lowest number of employee words is given a value of 0. The highest quintile is given a value of 1. The middle quintiles from lowest to highest are given values of 0.25, 0.5, and 0.75.

Due to the concern that our results may be driven by increased wordiness in the filing (as opposed to increased discussion of employees), I also create the variable *intensity* which scales *humancap* by the total number of words. *Intensitymodel* is similarly grouped within one digit SIC and fiscal year and divided into quintiles.

Finally, I create several measures to determine whether a company has conducted layoffs. First, I measure layoffs if the company has a restructuring charge that is at least 1% of assets (*layoffsoccurone*). Second, I measure layoffs if the company has a restructuring charge that is at least 1% of assets and has a reduction in the number of employees in the current year (*layoffsoccurtwo*). Finally, I measure layoffs if the company has a restructuring charge that is at least 1% of assets and has at least a 10% reduction in the number of employees (*layoffsoccurthree*).

Research design

To test my hypothesis, I construct two tests. The first is a logit model that measures the odds of having layoffs as human capital disclosure increases:

$$\text{Layoffsoccur} = B_0 + B_1 * \textit{humancapmodel} + B_2 * \textit{size} + B_3 * \textit{emp} + B_4 * \log(\text{SALE}_{t+1}/\text{SALE}_t) + \varepsilon,$$

and we include industry and year fixed effects.

The second test is the impact of human capital disclosure on management's employee adjustment decisions using the following regression model:

$$\log(\text{EMP}_{t+1}/\text{EMP}_t)^{[1]} = B_0 + B_1 * \log(\text{SALE}_{t+1}/\text{SALE}_t) + B_2 * \text{decrease} * \log(\text{SALE}_{t+1}/\text{SALE}_t)^{[2]} +$$

$$B_3 * \textit{humancapmodel} * \log(\text{SALE}_{t+1}/\text{SALE}_t) +$$

$$B_4 * \textit{humancapmodel} * \text{decrease} * \log(\text{SALE}_t/\text{SALE}_{t-1}) + \varepsilon$$

[1] This variable is called logempchange in the table of results.
[2] This variable is called logsalechange in the table of results.

where decrease is a dummy variable for firm-years whose revenue in t+1 is less than in t.

This allows us to interpret the coefficients as the level of employee change for a 1% change in revenue. Specifically, B_1 is the percentage increase in the number of employees for a 1% increase in revenue for firms who have the lowest level of human capital disclosure. $B_1 + B_2$ is the percentage decrease in the number of employees for a 1% decrease in revenue for those same firms. $B_1 + B_3$ is the percentage increase in the number of employees for a 1% increase in revenue for firms with the highest level of human capital disclosure. The main coefficient of interest is B_4 which lets us know the stickiness of employees for firms in the highest quintile. Summing coefficients $B_1 – B_4$ gives the percentage decrease in employees for a 1% decrease in revenue. Figure 1 offers a visual aid in interpreting the coefficients. All tests include industry and year fixed effects.

IV. RESULTS

Descriptive statistics

One interesting observation when looking at the descriptives is the variation in *humancap*, which is the count of the words in Item 1 of the 10-K from our word list. The interquartile range has a range of 32. The minimum is 1, which indicates firms that do the bare minimum required by the law: stating the number of employees. The highest 25th percentile ranges from 51 to 1,475 words. This indicates that there is little variation in the middle, but significant variation between the lowest quintile and the highest quintile. The firms in my sample have an average of 10,697 employees, and \$3.8 billion in sales.

Regression analysis

Table 2 shows the results of our layoffs test. *Intensitymodel* has a coefficient of 0.235 and is significant at the 0.01 level. This indicates that firms with the highest level of human capital disclosure have 26% higher odds of conducting layoffs than firms with the lowest levels of human capital disclosure.

Table 3 gives some context to these results by focusing on changes in employees during revenue increasing and revenue decreasing periods. Column 1 indicates whether employees are sticky <u>without taking into account 10-K disclosure</u>. On average, firms tend to have a stronger reaction to employee change during revenue decreasing periods than revenue decreasing periods. A 1% increase in revenue result in a .34% increase in the number of employees, and when revenue decreases, employees decrease even more (.59%). This would suggest, on average, companies make a decision on the number of employees purely based on need. They increase employees to meet sales and terminate employees (at a slightly higher rate) when revenue declines.

Columns 2 and 3 add the interactions of *humancapmodel* and *intensitymodel*. As a reminder, *intensity* scales humancap (word count of human capital words) by total words. *Intensitymodel* divides *intensity* into quintiles (by one-digit SIC and fiscal year) and assigns a value of 0 to those in the lowest quintile and 1 to those in the highest quintile.

Figure 1 offers an easy interpretation of the coefficients in Column 3 of Table 3. Firms with high levels of human capital disclosure have a .37% increase in employees for a 1% increase in sales, where firms with the lowest levels of human capital disclosure exhibit an increase in employees of .24% for a 1% increase in sales. However, for a 1% decrease in sales, both sets of firms reduce employees just over .7% for a 1% decrease in sales. Taken all together, the results suggest that human capital disclosure is meaningful information for firms in revenue increasing periods, but could be considered "cheap talk" when revenue is decreasing.

V. CONCLUSION

In this study, I find that firms with higher levels of human capital disclosure are no more likely to retain employees in the event of a revenue decline, providing evidence for social washing.

This study has several limitations. First, we only investigate two areas where we expect to see firm action with respect to their employees. Future versions of this study will need to provide additional evidence from other sources, such as Glassdoor ratings. Furthermore, more analysis is needed to determine if these result are driven by other variables, such as a firm's reliance on salaried vs hourly wage employees.

This study provides evidence that 10-K disclosure is not a reliable source to determine how a firm treats its employees. Additional research needs to investigate whether the new regulation on human capital disclosure changes any of these conclusions.

Figure 1 Coefficient Interpretations

Disclosure	1% increase in sales	1% decrease in sales	Difference
Low	B1 0.237	B1 + B2 .237+.464 0.701	B2 0.464
High	B1 + B3 0.237+0.132 0.369	B1 + B2 + B3 + B4 0.237+.464+.132-.118 0.715	B2 + B4 0.346

This figure explains the coefficients in the research design model. The coefficients in the figure are from Table 3 (Column 3) as an additional aid in interpreting the results from the regression.

Table 1 Descriptive Statistics

Variable	Mean	Std Dev	25th Pctl	Median	75th Pctl	Min	Max
item1words	7,544	5,378	4,081	6,189	9,405	54	123,980
humancap	42	39	19	31	51	1	1,475
intensity	0.006	0.003	0.004	0.005	0.007	0.0005	0.041
emp	10,697	51,305	255	1,250	6,012	1	2,300,000
sale	3,757	17,118	88	454	1,904	0	521,426
at	7,574	58,523	208	935	3,396	0	2,687,379

totalwords is the number of words in Item 1 of the 10-K; *humancap* is the number of words describing employees and the workplace environment; *intensity* is *humancap* divided by *totalwords*; *emp* is the number of employees provided by Compustat; *sale* is gross sales provided by Compustat ($mil)

Table 3 Predicting Layoffs

VARIABLES	(1) *layoffsoccurone*	(2) *layoffsoccurtwo*	(3) *layoffsoccurthree*
intensitymodel	0.235***	0.231***	0.269**
	(3.65)	(2.83)	(2.39)
size	0.099***	0.081***	-0.018
	(20.70)	(9.89)	(-1.04)
emp	-0.002**	-0.001**	-0.005**
	(-2.49)	(-1.99)	(-2.52)
logsalechange	-1.815***	-2.583***	-2.728***
	(-17.49)	(-20.13)	(-17.36)
Constant	-4.241***	-4.632***	-4.686***
	(-26.70)	(-23.76)	(-17.05)
Observations	29,821	29,821	29,821
Pseudo R2	0.107	0.118	0.125

Robust z-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 3 Employee Stickiness

VARIABLES	(1) logempchange	(2) logempchange	(3) logempchange
logsalechange	0.337***	0.260***	0.237***
	(57.51)	(27.95)	(24.54)
decrease x logsalechange	0.254***	0.461***	0.464***
	(20.65)	(21.30)	(22.20)
humancapmodel x logsalechange		0.086***	
		(5.15)	
decrease x humancapmodel x logsalechange		-0.119***	
		(-3.32)	
intensitymodel x logsalechange			0.132***
			(8.23)
decrease x intensitymodel x logsalechange			-0.118***
			(-3.53)
humancapmodel		-0.001	
		(-0.30)	
intensitymodel			-0.018***
			(-4.07)
at		-0.000***	-0.000***
		(-3.08)	(-3.34)
empint		-0.408*	-0.319
		(-1.66)	(-1.30)
at x logsalechange		0.000***	0.000***
		(3.25)	(3.61)
empint x logsalechange		10.748***	10.497***
		(12.12)	(11.84)
decrease x at x logsalechange		-0.000***	-0.000***
		(-3.52)	(-3.83)
decrease x empint x logsalechange		-31.085***	-30.947***
		(-20.36)	(-20.17)
Constant	0.026***	0.028***	0.037***
	(16.97)	(10.07)	(12.99)
Observations	29,822	29,822	29,822
Adjusted R-squared	0.222	0.237	0.238

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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Appendix A

[‘associate’, ‘employee’, ’labor’, ’workforce’] –

[‘disabilities’, ‘diverse’, ’diversity’, ’ethnic’, ‘gender’, ‘identity’, ‘identities’, ‘minorities’, ‘orientation’, ‘race’, ‘racial’, ‘religion’, ‘representation’, ‘women’] - Diversity

[‘collaborate’, ‘collaboration’, ’culture’, ’cultural’, ‘creative’, ‘creativity’, ‘dialogue’, ‘equity’, ‘inclusive’, ‘inclusion’, ‘family’, ‘families’, ‘flexible’, ‘flexibility’, ‘fulfilling’, ‘listen’, ‘respect’, ‘rights’, ‘safety’] - Environment

[‘candidate’, ‘career’, ’compensat’, ’curious’, ‘curiosity’, ‘educat’, ‘passion’, ‘talent’, ‘training’] – Employee Attraction

Appendix B

Excerpt from Okta, Inc 2021 10-K

Our core values – love our customers, never stop innovating, act with integrity, be transparent and empower our people – inform and guide our human capital initiatives and objectives. In order to continue to innovate and drive customer success, it is crucial that we continue to attract, develop and retain exceptional **talent**. To that end, we strive to make Okta a **diverse** and **inclusive** workplace, with opportunities for our **employees** to grow and develop in their **careers**, supported by fair and competitive **compensation**, benefits and wellness programs, and by initiatives that foster connections between and among our **employees** and their communities.

As of January 31, 2022, we had 5,030 **employees**, of which approximately 74% were in the United States and 26% were in our international locations. We have not experienced any work stoppages, and we consider our relations with our **employees** to be good. Our **employee** engagement program helps us understand **employee** sentiment on a wide range of topics throughout the **employee** lifecycle, providing insights that inform our decisions about company initiatives, **employee** programs, **talent** risks, management opportunities and more. In fiscal 2022, 83% of our eligible **employees** participated in our annual **employee** engagement survey.

We encourage you to review the "**Diversity**, **Inclusion** and Belonging," "Responsibility," **"Careers"** and "Okta for Good" pages of our website at www.okta.com for more detailed information regarding our human capital programs and initiatives. Additional information on our **diversity**, **inclusion** and belonging strategy, **diversity** metrics and programs can be found in our most recent State of **Inclusion** at Okta annual report located on our website at www.okta.com/state-of-inclusion-at-okta, and additional information on our **compensation**, benefits and wellness programs is available on our Total Rewards website at rewards.okta.com. The information contained on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K.

People First Philosophy

"Empower our people" is one of our core values and in fiscal 2022, we introduced our "People First" philosophy in which **culture**, career growth, competitive rewards, flexible work and purpose come together to create a shared sense of ownership in achieving our company vision. As we enter our next phase of growth, bolstered by the addition of Auth0 and its **employees**, we want every **employee** to feel ownership of Okta.

***Diversity*, *Inclusion* and Belonging**

We are committed to fostering a **culture** of **inclusion** and belonging, and to building a **diverse workforce** to drive innovation and collective growth, which we believe is critical to our success. Over the past few years, we have made deeper investments in our **diversity**, **inclusion** and belonging ("DIB") program at Okta. Our DIB initiatives – spearheaded by our DIB department, **Inclusion** Council and **employee** resource groups ("ERGs"), in partnership with various other teams – focus on DIB in our **workforce**, in our workplace and in the community.

We employ **inclusive** recruitment and hiring practices to source **diverse** talent and mitigate potential bias throughout the hiring process. Our engagement with **diversity** sourcing programs and partnerships allows us to both source top **talent** from underrepresented groups for current open roles, and further strengthen our ability to build and nurture **diverse talent** communities for future roles. We also continue to recruit from a range of colleges, including those that support women in computer science and Historically Black Colleges and Universities, and engage with organizations that support **diverse** students and jobseekers through our social impact arm, Okta for Good.

Nurturing a **culture** of **inclusion** and belonging in our workplace is a key priority. We empower our **employees** to be authentic and grow through open conversations and engagement resources, including regular safe space DIB discussion forums and facilitated workshops, personalized DIB learning tools, mentoring and workplace development programs focused on supporting **talent** from underrepresented communities, and sponsorship of ERGs that strengthen our DIB **culture**. We currently have ERGs supporting **women**, people of color, veterans, the LGBTQIA+ community and parents and caregivers, and plan to launch affinity groups supporting neuro**diversity** and persons with disabilities in fiscal 2023.

Growth and Development

We invest significant resources to develop **talent** and actively foster a learning **culture** where **employees** are empowered to drive their personal and professional growth. We provide our **employees** with a wide range of learning and development opportunities, including in-person, virtual, social and self-directed learning, mentoring, coaching and external development. We offer extensive onboarding and training programs to prepare our **employees** at all levels for **career** progression and individual development.

Compensation, Benefits and Wellness

We provide robust **compensation**, benefits and wellness programs that help support the varying needs of our **employees**. In addition to market-competitive base pay, short-term bonus incentives and long-term equity incentives, our total rewards program offers comprehensive **employee** benefits that may vary by country/region, including an **employee** stock purchase plan, a 401(k) plan with company matching contribution, comprehensive medical, dental and vision insurance, life and disability insurance, health savings accounts, flexible time off, volunteer time off, gender-neutral paid parental leave, fertility and adoption support, **family** care resources, mobile and internet reimbursement, mental health and lifestyle support programs and a variety of other health and wellness resources.

We are committed to fair **compensation** and opportunity in our workplace. We conduct regular equal pay assessments and adjust as needed to ensure our **employees** are paid equitably without regard to **gender** or **ethnicity**.

Dynamic Work

We help our **employees** succeed by providing flexibility in where and how they work. Over the past few years, we introduced and began transitioning our **workforce** to a “Dynamic Work” framework, based on the premise that enabling our **employees** to work from anywhere can increase **employee** empowerment, satisfaction and productivity, drive efficiency and enable us to hire from a broader, more **diverse** pool of **talent**. In response to the COVID-19 pandemic, we accelerated our move to Dynamic Work to protect the health, safety and wellness of our **employees.**

Looking forward, we continue to focus on technologies and programs that create equity and build community across our dynamic **workforce**, including:

•Flexible benefit offerings that allow **employee** customization;

•Workplace solutions, such as coworking spaces, outside of our primary office locations that support our distributed teams;

•A Dynamic Work Sustainability Guide to empower our **employees** to reduce their carbon footprints wherever they are working from; and

•Curated experience programs that foster a sense of community both in-person and virtually.

Community and Social Impact

The mission of our social impact arm, Okta for Good, is to strengthen the connections between people, technology and community, which we believe fosters a more meaningful, **fulfilling** and enjoyable workplace. Our **employees** are passionate about many causes and Okta for Good connects them with numerous giving and volunteering opportunities in service of our communities. Okta for Good's core focus areas are:

•Developing technology for good ecosystems;

•Expanding economic opportunity and pathways into the technology sector;

•Supporting non-profits addressing critical needs in our global communities; and

•Empowering our **employees** to become changemakers.

Through Okta for Good, which is a part of our company and not a separate legal entity, we donate and discount access to our service for non-profit organizations, who use the Okta Identity Cloud to make their teams more efficient, allowing them to focus on making a meaningful impact in the world. Our **employee** volunteer program enables global team members to donate time to support charitable organizations worldwide.