HRPA HR POLICY ASSOCIATION®

CONNECT INFORM EMPOWER

Advancing the American Workforce

ALIGNING POLICY SOLUTIONS & BEST PRACTICES

SPOTLIGHT ON

Human Capital Metrics: Standardized Disclosure Requirements Misleading and Burdensome

Although some companies or industries may use similar categories, there is no set of generally accepted, standardized human capital metrics. Requiring companies to disclose them as though there were is misleading, and could lead investors to believe there is comparability where there is none.

By Ani Huang

About this Series

HR Policy Association (HRPA) represents nearly 400 of the largest companies worldwide. Members employ more than 10 million individuals in the U.S. This report articulates the perspectives of our members regarding the trajectory of work in the U.S. and the need for specific changes in both corporate and public policies to effectively advance the future of the American workforce.

HR Policy Association's "Advancing the American Workforce" series equips policymakers and business leaders with insights from Chief Human Resource Officers (CHROs) of major companies. The profound changes employers and society have experienced over the past five years have transformed the way large employers and their employees think about work, the workforce, and the workplace and how each needs to be structured for long-term success. HR Policy provides the perspective, not only from employers, but from CHROs who bridge the goals of their companies with the talents and needs of its greatest asset: employees.

New technologies, evolving demographics, and shifting political winds demand a strategic approach to HR. Chief Human Resource Officers are at the forefront of navigating these changes, and their perspective provides invaluable insights for policymakers. This multi-part series offers practical experiences and perspectives on the critical trends shaping the future of work, and suggests policy approaches to ensure the American workforce remains at the vanguard of global excellence in the years to come.

Executive Editor: Timothy J. Bartl

Series topics include:

- **Artificial Intelligence (AI)**
- **Diversity, Equity & Inclusion**
- **Employee Voice & Unionization**
- **Global**
- **Health Care & Wellness**
- *Human Capital Metrics*
- **Immigration**
- **Non-Compete Agreements**
- **Pay Transparency & Equity**
- **Retirement**
- **Workplace Flexibility**

HRPA

EXECUTIVE SUMMARY

Human Capital Metrics: Too Complex and Burdensome to Standardize

Chief Human Resources Officers (CHROs) analyze human capital metrics to support fair, inclusive, and engaged work environments. Distilling the essence of complex organizations into a set of standardized metrics could have potentially harmful results.

To track and measure their organizations' success, CHROs strongly value analyzing human capital metrics (HCM) along with financial, operational, and other organizational metrics.

At the behest of specific stakeholders such as ESG activist investors, labor unions, and academics, the SEC has shared its intentions to issue prescriptive and burdensome HCM disclosure rules. A main concern with this proposal is that while most companies operate using numerous metrics (financial, operational, and non-financial, including HCM), it would be extremely difficult to distill the essence of complex organizations into a set of standardized human capital metrics that are meaningful to parties.

Although human capital metrics are measured and used internally by many companies, it is not beneficial to require their public disclosure as though they were standardized metrics that are equally meaningful to all companies and investors. Looking ahead to 2030 and beyond, the SEC should not implement a stricter reporting rule, but instead provide guidance and best practices that allow companies flexibility in choosing metrics that best reflect their unique circumstances while still meeting its overarching goals of providing material information to investors.

Human Capital Metrics Provide Valuable Insight into the Performance of an Organization's Human Resources

While most companies use numerous metrics, it is extremely difficult to distill the essence of complex organizations into a set of standardized, meaningful metrics.

In August of 2020, the SEC adopted rules to "modernize the disclosure of human capital" by requiring companies to discuss their human capital resources when material to an understanding of their business as a whole. As a response to this revision, companies engaged with shareholders and provided a plethora of disclosures.

A 2023 Gibson Dunn study[1] found that 93% of companies included disclosures relating to workforce composition and demographics; 88% included disclosures on talent and succession; 67% discussed compensation and benefits offered to employees; 64% disclosed health and safety; and 51% discussed specific initiatives related to culture and engagement.

However, this was not enough for the SEC, which has announced its intention (at the behest of specific stakeholders such as ESG activist investors, labor unions and academics) of issuing much more prescriptive and burdensome HCM disclosure rules. The rules are expected to include mandatory disclosure of the number of full-time workers, part-time workers and independent contractors, turnover, numerous elements of compensation and benefits, and detailed diversity metrics.

A major concern with this approach is that while most companies operate using numerous metrics (financial, operational, and non-financial, including HCM), it would be extremely difficult to distill the essence of complex organizations into a set of standardized human capital metrics that are meaningful to parties.

> **We use workforce planning metrics such as workforce composition, turnover, and talent acquisition metrics to identify talent gaps and plan for future staffing needs.**
>
> HR POLICY ASSOCIATION MEMBER CHRO

> **We use employee satisfaction scores and engagement surveys to gauge the overall satisfaction and commitment of employees and avoid unwanted turnover.**
>
> HR POLICY ASSOCIATION MEMBER CHRO

CONCERN #1

No Common HCM Definitions

There is no single metric applicable to every company in every circumstance. Additionally, there is not a set of generally accepted, standardized Human Capital Metrics that companies use, even though certain companies or certain industries may use similar categories of human capital metrics. Requiring companies to disclose them as though there were a standard is misleading – it could lead investors to believe there is comparability where there is none.

To illustrate, consider two technology companies specializing in software development, but with different workforce characteristics:

COMPANY A

Workforce Characteristics: Company A focuses on hiring experienced professionals and industry veterans. It prioritizes seniority and expertise, often recruiting individuals with substantial experience in the field. It has a relatively smaller workforce but with seasoned and specialized talent.

Human Capital Metrics: This company's metrics might show lower turnover rates compared to industry averages. It might have higher average salaries due to their experienced workforce. Productivity metrics might also be higher, given the expertise and efficiency of their workforce. However, it might have fewer employees involved in training programs or professional development since it hires individuals with existing skills and experience.

COMPANY B

Workforce Characteristics: Company B focuses on hiring a diverse workforce, including fresh graduates, interns, and mid-level professionals. It prioritizes a mix of skills, innovation, and potential for growth. It invests significantly in training and development programs, encouraging career progression within the company.

Human Capital Metrics: Although healthy and successful, Company B might show higher turnover rates due to the presence of younger employees exploring various career opportunities. Average salaries might be lower due to a mix of experience levels. However, it might show higher metrics related to employee engagement, participation in training programs, and internal promotions, indicating a strong focus on nurturing talent and internal growth.

Although both companies are successful and healthy within the same industry, their metrics can differ significantly due to distinct approaches to workforce composition, talent acquisition, and development strategies.

CONCERN #2

Low Investor Interest

Of the myriad human capital disclosures that companies have filed in the past two years, the only disclosure that large investors have asked for more information on is diversity – and companies have responded. 55% of the Russell 1000 now discloses racial/ethnic workforce diversity. Most large investors are happy with the level of HCM disclosure companies are providing – and if they aren't, they don't hesitate to make that known to issuers.

HCM Disclosure Likely to Generate Harm

Although HCM are used successfully within companies, requiring public disclosure as though they were standardized metrics is not beneficial, and could be harmful.

The fact is that although human capital metrics are measured and used internally by many companies, it is not beneficial to require their public disclosure as though they were standardized metrics that are equally meaningful to all companies and investors. In fact, there are several ways in which this could be harmful.

Significant Cost of Compliance: The amount of data the SEC is calling for is vast. Companies would need to invest in systems and processes to collect, compile, and analyze the data, allocate resources to ensure compliance including audits, or even outsource technological infrastructure to gather the data. The benefits to investors are greatly outweighed by these costs.

Potential for Misinterpretation: HCM, when taken out of context, might be misinterpreted. Investors or analysts might draw conclusions solely based on disclosed figures without understanding the broader context or underlying strategies, potentially impacting market perceptions and stock valuation.

Talent Retention and Recruitment: Similarly, detailed disclosures about workforce composition, turnover rates, and employee development initiatives could impact talent retention and recruitment efforts. Although HCM may seem easy to understand, they require significant nuance to be reliable indicators of a company's health. It is unlikely that most stakeholders would have the means (or the interest) to analyze each sector separately to differentiate "good" versus "bad" results. For example, if a company has high turnover (for good reasons[2]), it could be misinterpreted as evidence the company has a bad culture, detering potential candidates and creating concerns among existing employees about job stability and career growth for no reason.

Competitive Hiring: Mandatory disclosure of HCM might expose sensitive information about recruitment strategies, training programs, or talent development initiatives. Competitors could potentially leverage this information, affecting a company's competitive advantage in attracting and retaining top talent.

Strategic Disclosure Concerns: Companies may face dilemmas about what and how much to disclose. Striking a balance between providing meaningful insights and safeguarding proprietary information or competitive strategies could pose challenges in disclosure compliance.

HR Policy Association Supports the Following Reforms

The recommendations below are based on experience gained by employers and can help inform HCM disclosure policy development. HR Policy Association recommends two approaches:

1 Avoid mandating public disclosure of one-size-fits-all metrics

By leveraging human capital metrics, large companies can make data-driven decisions, enhance operational efficiency, and create strategies to attract, retain, and develop a high-performing workforce. As one CHRO put it, “a data-driven approach is essential for staying competitive” in today’s dynamic business environment. However, it does not follow that federal agencies should interfere in market practice by mandating public disclosure of specific, one-size-fits-all metrics and invite comparison between companies.

2 Provide guidance and best practices for HCM reporting

The SEC should provide guidance and best practices for reporting human capital metrics via the already established 2020 principles-based rules, without adding a second, more burdensome rule governing the same disclosures. This would offer recommendations and examples to help companies improve the quality and relevance of their disclosures. It would allow companies flexibility in choosing metrics that best reflect their unique circumstances while still meeting the overarching disclosure goals.

Endnotes

[1] See Gibson Dunn, “Form 10-K Human Capital Disclosures Continue to Evolve,” https://www.gibsondunn.com/form-10-k-human-capital-disclosures-continue-to-evolve/

[2] Even in a healthy and successful company, turnover can occur due to various reasons, some of which might not necessarily indicate fundamental issues within the organization. These could include market demand, M&A activity, high use of project-based work, or industry (hospitality, retail and construction may all have naturally high turnover based on the type of job).

Series Authors

Timothy J. Bartl
President and CEO
HR Policy Association

Chatrane Birbal
Vice President, Public Policy & Government Relations
HR Policy Association

Wenchao Dong
Senior Director and Leader, HR Policy Global
HR Policy Association

Margaret Faso
Senior Director, Public Policy, HR Policy Association
Executive Director, American Health Policy Institute

Nancy B. Hammer
Vice President, Communications
HR Policy Association

Gregory Hoff
Associate Counsel, Director of Labor & Employment
Law and Policy, HR Policy Association

Ani Huang
Senior Executive VP, Chief Content Officer, HR Policy Association
President and CEO, Center On Executive Compensation

Megan Wolf
Director, Practice
HR Policy Association, Center On Executive Compensation

Daniel V. Yager
Senior Advisor, Workplace Policy
HR Policy Association

HRPA's Board of Directors

HRPA HR POLICY ASSOCIATION®
CONNECT INFORM EMPOWER

ABOUT

HR Policy Association

For more than 50 years, HR Policy Association has been the lead organization representing Chief Human Resource Officers of major employers. HRPA consists of nearly 400 of the largest corporations doing business in the United States and globally. These companies are represented in the organization by their most senior human resource executives. Collectively, HRPA member companies employ more than 10 million employees in the United States, over nine percent of the private sector workforce, and 20 million employees worldwide. These senior corporate officers participate in the Association because of their unwavering commitment to improving the direction of human resources policy. To learn more, visit hrpolicy.org.