HUMAN CAPITAL MEASUREMENT AND REPORTING: THE NEW FRONTIER IN TALENT STRATEGY AND ESG

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Northeastern University
Center for the Future of Higher Education and Talent Strategy

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EXECUTIVE SUMMARY

In the post-COVID economic landscape, talent shortages and a transforming workplace have made human capital management a top priority for employers. New regulations and financial market pressures, including Environmental, Social, and Governance, or "ESG" investing, are also shining a spotlight on corporations' workers as a strategic, undervalued intangible asset. These dynamics introduce an urgent opportunity to measure and report on human capital. However, this is a nascent area in which stakeholders have different levels of awareness of the emerging demands and strategic possibilities.

This report analyzes the current state of human capital measurement and reporting and builds the case for greater attention to this subject. Additionally, it focuses on identifying gaps and opportunities for action among employers and other stakeholders in the field, with a focus on how new ESG investing dynamics are converging with human resources capabilities. This analysis is driven by synthesizing research from a range of relevant domains, and original interviews with more than 30 national and global experts. It begins with a summary of forces driving the increased focus on human capital and its reporting, and then situates the issue within the context of evolving stakeholder capitalism and ESG standards, especially as the "S," or social element within ESG comes into focus. This report then explores existing human capital- and ESG-related reporting frameworks. Our key conclusions and recommendations, explored in-depth in the second half of this report, represent 3 areas of action:

1. Building awareness and bringing attention to human capital measurement and reporting

2. Collectively defining standards and best practices

3. Developing technology infrastructure and analytical capabilities

1. **Human capital measurement and reporting is still a very new topic, yet converging market forces are making it a key priority for companies and other players in the workforce ecosystem to urgently engage with. Driven by new regulations and ESG investment dynamics, this is becoming an important dimension of corporate talent strategy and financial reporting and compliance.** Corporate leaders, investors, policymakers, and other interested parties can play an important role in growing awareness of this burgeoning topic both within businesses and in the broader marketplace. While human capital measurement is a growing c-suite priority, the human resources (HR) function that is most focused on talent management appears to be relatively unprepared for new reporting requirements. Meanwhile, ESG and investor relations leaders have historically focused more on environmental topics, and typically do not have a deep understanding of a firm's human capital measurement and assessment capabilities. Overall, companies themselves need to prepare by taking a more integrated approach that ensures better collaboration across the HR, ESG, finance, and investor relations functions.

2. **External reporting frameworks with common themes are emerging - but the reporting environment is complex to navigate and lacks agreement on the best ways for companies to measure and tell their human capital story. Key stakeholders in the field must come together to jointly develop priorities and standards and support corporate leaders in their engagement in this emerging area.** Across most frameworks and current corporate practices, there is a fair amount of consistency on the treatment of basic human capital measurement categories such as headcount and diversity. However, many strategic and impactful measurement categories require nuanced approaches and greater definition and standardization – for example, those related to training and development, skills, and elements of job quality. Moreover, talent mobility – how an organization develops its people and where employees end up in their careers – emerges as one of the most compelling human capital measures for organizations and other stakeholders to focus on. It is also widely acknowledged that industry peers must come together to define measures that are meaningful in their specific sectors, which will ultimately unlock the benefits of benchmarking. Coming to agreement and developing standards in these areas represents an opportunity for dialogue and immediate action. In addition to a focus on quantitative human capital metrics, there is also a need to develop consensus on how organizations appropriately explain their "human capital story" to key stakeholders – a narrative element that reflects the principles behind regulatory guidelines and existing reporting frameworks.

3. **The current state of corporate technology systems and analytical capabilities within most organizations is a significant limitation in immediately moving human capital measurement and reporting forward. However, elevating awareness of this challenge and new investments in systems capabilities and data standards can catalyze progress.** Limited by existing information systems, most companies are likely unprepared to gather needed data and to report on beneficial or required human capital disclosures. Given new requirements and market demands, investing in stronger talent-focused analytics capabilities is a necessity. With greater awareness of the challenge, HR technology companies and their corporate customers can partner to develop the tools needed to collect and benefit from this data. In addition, dialogue among all stakeholders about best practices, resources, and policy changes can strategically advance these practices and better prepare employers to engage in this work.

INTRODUCTION

The global economy has experienced unprecedented change and disruption since the onset of the COVID-19 pandemic. Following a jarring decline and steady recovery, employment levels in the U.S. had fully returned to their pre-pandemic levels by mid-2022.[1] Today, talent shortages and the challenge of employee recruitment and retention are at the top of corporations' strategic agenda, according to various CEO surveys.[2] While managing continued digital transformation efforts, ongoing supply chain disruptions, a dynamic geopolitical environment, and profound societal change, the attention of corporate leaders and their boards is focused more than ever on their people - the firms' human capital.

Human capital management (HCM) is how organizations attract, hire, develop, retain, and engage their entire workforce, including full-time and part-time employees, contractors, freelancers, and crowdsourced workers. HCM is how that human capital is managed in concert with other resources to execute the organization's business model. Effective HCM involves creating great professional experiences for the people who contribute their talent and passion to the organization.[3]

However, despite the strategic importance and value generated by employees in today's knowledge-driven economy, human capital - as an intangible asset - traditionally has not been thought about, managed, reported, and regulated in the same way as companies' other assets. Intangible assets, including human capital, are estimated to account for 90% of the S&P 500's market value, compared to just 17% in the economy of 1975.[4] Human capital has historically been treated as the labor input in the business model and merely categorized as an expense, but is increasingly being recognized as a valuable intangible asset. A company's workers are now regarded not just as resources but also as critical stakeholders, with enhancing the welfare of the workforce seen as part of the purpose of the corporation.[5] As a result, the measurement and reporting of human capital is taking on greater importance, given the business adage cited so often by experts interviewed for this study: "if you can't measure it, you can't manage it."

In late 2020, a catalytic event in the measurement of reporting and human capital occurred: a mandate from the United States Securities and Exchange Commission (SEC) that publicly traded companies must, in their regular filings, disclose their human capital resources and describe

1. "Employment Situation Summary," U.S. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm.
2. Reset and Reimagine, The Conference Board, https://www.conference-board.org/topics/c-suite-outlook/2022-reset-and-reimagine; "PwC Pulse Survey: Executive Views on Business in 2022," PwC, https://www.pwc.com/us/en/library/pulse-survey/executive-views-2022.html.
3. "Recommendation of the Investor Advisory Committee Human Capital Management Disclosure," U.S. Securities and Exchange Commission, March 28, 2019, https://www.sec.gov/spotlight/investor-advisory-committee-2012/human-capital-disclosure-recommendation.pdf.
4. Bruce Berman, "Latest Data Show That Intangible Assets Comprise 90% of the Value of the S&P 500 Companies," IP CloseUp, January 19, 2021, https://ipcloseup.com/2021/01/19/latest-data-show-that-intangible-assets-comprise-90-of-the-value-of-the-sp-500-companies/.
5. "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans," The Business Roundtable, August 19, 2019, https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.

workforce issues that are material to their business.[6] This is ushering in a new era of human capital-related disclosures, with more detailed regulatory guidance expected in 2023.

In addition, the value created by and risks associated with human capital have been elevated by the experience of the pandemic and the increased attention to worker conditions and social issues. And, the ability to measure the impact of organizations' employees is being advanced by technological developments including "people analytics" and the arrival of next-generation HR technology tools and data standards. Together, these factors are converging to drive the advancement of human capital measurement and reporting as an area of strategy and practice.

Investors' demand for greater corporate transparency and comparable, reliable reporting is another key factor. The interest in human capital and other non-financial elements has accelerated with the dramatic growth of the ESG (Environmental, Social, and Governance) movement, which evolved from the decades-old concept of socially responsible business.[7] ESG investments now account for an estimated $41 trillion in assets - one-third of all assets under management globally, up 44% since 2016.[8] The initial wave of ESG investing has been anchored in the "E" within the acronym: environmental disclosures related to climate change, for example. However, much greater attention is increasingly being paid to the underdeveloped "S," or social category. It is here that companies' employees come into focus.

With the greater importance placed on ESG efforts by organizations, a growing number of stakeholders including leading investors, policymakers, professional services firms, think-tanks, academics, and many others are discussing and developing best practices in this new frontier. The result of this emerging dialogue will be a widely accepted roadmap for human capital reporting. Crucially, CEOs, boards, HR executives, and corporate ESG leaders are turning their focus to this area as the intersection of ESG and HCM become more integral to corporate strategy.

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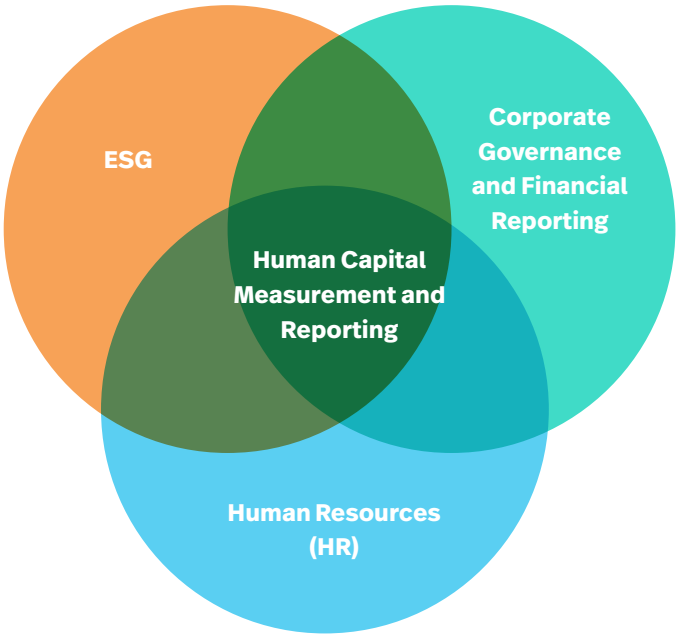
6. "SEC Adopts Rule Amendments to Modernize Disclosures of Business, Legal Proceedings, and Risk Factors Under Regulation S-K," U.S. Securities and Exchange Commission, August 26, 2020, https://www.sec.gov/news/press-release/2020-192.
7. "ESG 101: What is Environmental, Social and Governance?," MSCI, https://www.msci.com/esg-101-what-is-esg.
8. "ESG May Surpass $41 Trillion Assets in 2022, But Not Without Challenges, Finds Bloomberg Intelligence," Bloomberg, January 24, 2022, https://www.bloomberg.com/company/press/esg-may-surpass-41-trillion-assets-in-2022-but-not-without-challenges-finds-bloomberg-intelligence/#:~:text=London%2C%20January%2024%2C%202022%20%E2%80%93,surpassed%20%2435%20trillion%20in%202020.

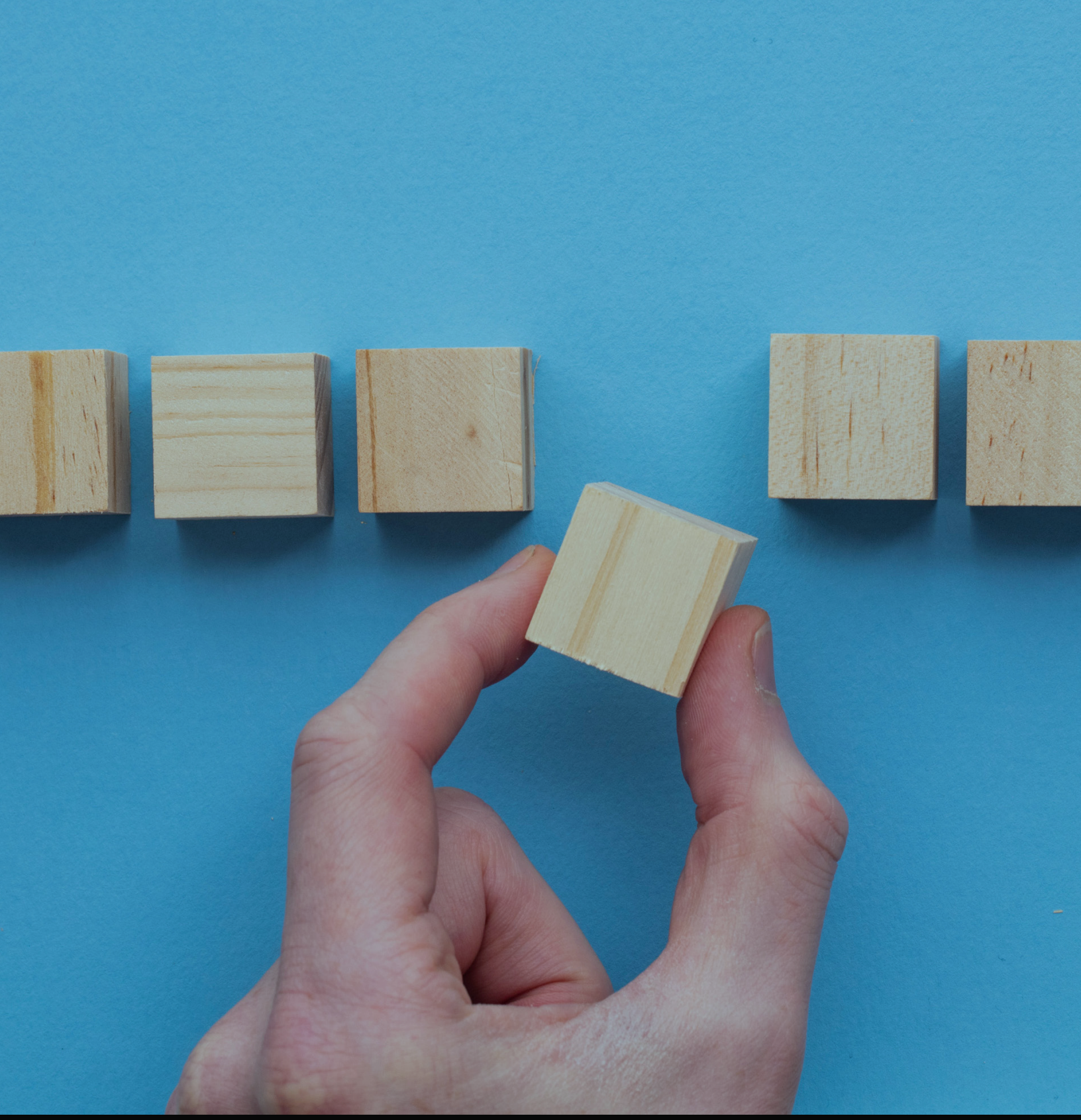
ABOUT THIS STUDY

Given the growing attention to human capital measurement and reporting, the purpose of this report is to provide interested stakeholders with an accessible, research-based primer on the topic, by synthesizing perspectives from a variety of relevant domains.

Figure 1. Multiple Domains Converging on Human Capital Measurement and Reporting



The analysis in this report is grounded in a deep review of existing academic research and industry publications - and driven by original research interviews with more than 30 national and international experts. These conversations conducted in mid-2022 included eminent academics, leading think-tanks, consultants, investors, and corporate ESG leaders. This study aims to provide a practical overview for stakeholders interested in this developing topic, including corporate executives in both the c-suite and talent/HR; ESG practitioners; and policymakers, scholars, investors, and others. The focus of the discussion that follows is on how the landscape is evolving and identifying key issues for future consideration and dialogue.



An Inflection Point for Human Capital

Prior to the COVID-19 pandemic, human capital-related issues such as hiring and retention were already among CEOs' top strategic priorities.[9] The experience of the last few years further escalated the urgency related to human capital issues, not only within businesses, but also as a broader economic and societal concern. Consider, for example, the pandemic's transformative impact on:

- **The importance of worker well-being.** As the World Economic Forum aptly stated, the pandemic "has illustrated the inextricable link between human health and organizational success."[10] Companies are more focused than ever on worker well-being and job quality.[11] Issues around flexible work arrangements, benefits, mental health, and employee engagement during and after the extended lockdown period continue to require attention. This has helped land the human capital agenda squarely on the list of boardroom priorities.

- **Demand for talent.** Labor shortages are a common trend worldwide, with job openings at all-time highs and unemployment rates at record lows.[12] According to PwC's CEO Pulse survey, 77% of executives said hiring and retaining talent was their most critical growth driver in 2022.[13] And, even with growth slowing and the possibility that 2022 may have represented the peak of the economic cycle, the labor market remains - paradoxically - very strong.[14]

- **Accelerating digital transformation.** The technology-driven "future of work" that so many think tanks and CEOs were fond of speculating about over the last decade has arrived. The very nature of work is now more digitized, and more than half of all U.S. workers have the option to work remotely either part or all of the time.[15] The pandemic forced or substantially accelerated the adoption of digital business models, technology investments, and related process improvements in fields as diverse as retail, finance, healthcare, and even education.[16] The number of robot orders has hit record levels as companies continue to rapidly automate.[17] These

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9. The Conference Board, "In 2019, CEOs are Most Concerned About Talent and a Recession," January 17, 2019, https://www.conference-board.org/pdf_free/press/Press%20Release%20--%20C-Suite%20Challenge%202019.pdf.
10. Andrea Walsh and Ryan Resch, "6 Ways the COVID-19 Pandemic Could Change Our Approach to Human Capital," World Economic Forum, August 6, 2020, https://www.weforum.org/agenda/2020/08/6-ways-covid-19-will-advance-human-capital-strategies-and-governance/.
11. Nicole Bateman and Martha Ross, "The Pandemic Hurt Low-Wage Workers the Most - and So Far, the Recovery Has Helped Them the Least," Brookings, July 28, 2021, https://www.brookings.edu/research/the-pandemic-hurt-low-wage-workers-the-most-and-so-far-the-recovery-has-helped-them-the-least/ ; Brian Kropp and Emily Rose McCrae, "11 Trends That Will Shape Work in 2022 and Beyond," Harvard Business Review, January 13, 2022, https://hbr.org/2022/01/11-trends-that-will-shape-work-in-2022-and-beyond.
12. "Global Megatrends 2022: Labor Shortages," Project Management Institute, https://www.pmi.org/learning/thought-leadership/megatrends/2022/labor-shortages?Download=/-/media/pmi/documents/public/pdf/learning/thought-leadership/pmi-megatrends-2022.pdf%3Fv%3Df12c94e6-a2d2-480d-b658-6cb8e803a0ae%26sc_lang_temp%3Den.
13. PwC, "Pulse Survey."
14. Tom Fairless and Megumi Fujikawa, "Weak Growth, Tight Job Markets Are a Global Phenomenon," Wall Street Journal, August 7, 2022, https://www.wsj.com/articles/weak-growth-tight-job-markets-are-a-global-phenomenon-11659865504.
15. André Dua, Kweilin Ellingrud, Phil Kirschner, Adrian Kwok, Ryan Luby, Rob Palter and Sarah Pemberton, "Americans are embracing flexible work–and they want more of it," McKinsey & Company, June 23, 2022, https://www.mckinsey.com/industries/real-estate/our-insights/americans-are-embracing-flexible-work-and-they-want-more-of-it
16. Federica Saliola and Asif M. Islam, "How to Harness the Digital Transformation of the Covid Era," Harvard Business Review, September 24, 2020, https://hbr.org/2020/09/how-to-harness-the-digital-transformation-of-the-covid-era.
17. "Robot Sales in US, North America Continue Record Surge into 2022," Association for Advancing Automation, June 6, 2022, https://www.automate.org/news/robot-sales-in-us-north-america-continue-record-surge-into-2022.

technological shifts are in turn driving the need for workforce upskilling and reskilling[18] - as well as a conversation about the responsibility of employers to develop human capital. Executives and investors are also asking if companies' strategies and workforces are equipped for this new environment.

- **The role of business in society.** The once-in-a-generation economic, societal, and political dynamics of the current moment have thrust corporations and CEOs into a position of having to be more active in addressing social issues.[19] There is now an even greater public expectation for companies to "do the right thing" for their workers, their customers, and society.[20] Racial equality has become an urgent and pressing concern. Companies are charged with addressing these issues in a way that embeds resilience for long-term performance - and will be part of what investors will be looking at when making their assessments under an ESG lens.

The confluence of these trends has led corporate executives to "turn a sharp eye to workforce issues and sustainability," as a c-suite survey from Gartner recently asserted.[21] As workers play a more central role in the race for competitive advantage, investors in capital markets, government regulators, and others are correspondingly demanding greater disclosure and transparency about organizations' people-related assets. This makes human capital measurement and reporting an important emerging priority within the business world.

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18. Matt Sigelman, Bledi Taska, Layla O'Kane, Julia Nitschke, Rainer Strack, Jens Baier, Frank Breitling, and Ádám Kotsis, Shifting Skills, Moving Targets, and Remaking the Workforce, Boston Consulting Group, 2022, https://web-assets.bcg.com/c1/c0/649ce-92247c48f4efdbf9e38797a/bcg-shifting-skills-moving-targets-and-remaking-the-workforce-may-2022.pdf.
19. Under Pressure: How Corporate America Can Address Social Issues," The Conference Board, June 29, 2021, https://www.conference-board.org/topics/social-impact/press/Under-Pressure-Corporate-America-Social-Issues.
20. Tim Stobierski, "15 Eye-Opening Corporate Social Responsibility Statistics," Harvard Business School Online, June 15, 2021, https://online.hbs.edu/blog/post/corporate-social-responsibility-statistics.
21. Jackie Wiles, "CEOs Turn a Sharp Eye to Workforce Issues and Sustainability in 2022-23," Gartner, April 27, 2022, https://www.gartner.com/en/articles/ceos-turn-a-sharp-eye-to-workforce-issues-and-sustainability-in-2022-23.

MORE STRATEGIC HUMAN CAPITAL MANAGEMENT, DRIVEN BY BETTER MEASUREMENT

Before exploring human capital measurement and reporting, it is important to first situate this activity within the broader context of how firms manage their human capital. An effective human capital management (HCM) strategy must align with the business strategy: it exists to provide a blueprint of the people-related actions that support the organization's ability to execute the strategy, and it provides focus for the chief human resource officer (CHRO) and the HR team as it partners with senior leadership on execution. And, beyond responding to required external disclosures, thoughtful approaches to HCM set the stage for the organization to tell its human capital story to a variety of stakeholders in response to the shift toward stakeholder management and purpose-driven business.

According to The Conference Board - a leading membership organization of more than 1,000 public and private corporations - the COVID-19 crisis demanded special agility among executives and radical adaptation in talent management practices.[22] However, redesigning HCM is much easier said than done. Moving talent around reactively is not only costly, but it also creates anxiety and stress for employees who were already feeling bludgeoned by professional and personal challenges. While the crisis radically disrupted business models and supply chains for many organizations, it also generated novel business opportunities for firms to address. As strategic plans are reassessed and rewired in the post-COVID-19 environment, an agile talent management strategy should be at the center of driving future growth.[23]

Drivers for Deeper Attention to Human Capital Measurement and Reporting

The use of human capital metrics is an important part of HCM, allowing executive leaders to properly determine the extent and value of human capital available in the enterprise; whether it is used effectively; and to make improvements to increase the overall performance of the business. Historically, human capital-related measurement and reporting has not received nearly the attention that financial capital and reporting have. Today, however, a number of market developments have aligned to bring greater attention to this area:

1. **The elevation of human capital issues to the board level and the clearer business case for human capital as a driver of strategy.** Talent-related issues are rising on the executive leadership and board agenda, not only due to their increased operational importance, but also because of ESG dynamics and investor demands for transparency.[24] As a result, companies are investing more in reporting infrastructure and analytical capabilities, to meet the need for better measurement and external reporting. In addition, corporate leaders at all levels are discovering the clear business case for investing in human capital measurement and leveraging it as a value-

22. Sandhya Karpe, "COVID-19 and the Talent Agility Imperative," The Conference Board, June 26, 2020.

23. The Conference Board, COVID-19 and the Talent Agility Imperative, June 26, 2020. https://www.conference-board.org/topics/natural-disasters-pandemics/covid19-talent-agility-imperative.

24. Jaemi Taylor and Matt Healey, "Human Capital is Rising on the Board Agenda," Directors & Boards, accessed October 17, 2022, https://www.directorsandboards.com/articles/singlehuman-capital-rising-board-agenda.

added activity. For example, David Vance, executive director of the Center for Talent Reporting and former chief economist at Caterpillar, Inc. highlights the power of human capital measures to not only inform, monitor, and evaluate - but to manage for better outcomes.

Investors have said that they want to better understand one of the most critical assets of a company: its people."

– SEC Chair Gary Gensler

These new requirements are arguably a watershed event in "modernizing" financial regulations and acknowledging the increased relevance of intangible assets such as human capital.

2. **New regulatory mandates driven by the Securities and Exchange Commission.** In 2020, the U.S. Securities and Exchange Commission (SEC) introduced new disclosure requirements for publicly traded companies requiring "a description of the registrant's human capital resources to the extent such disclosures would be material to an understanding of the registrant's business."[25] As SEC chair Gary Gensler has remarked, "Investors have said that they want to better understand one of the most critical assets of a company: its people."[26] These new requirements are arguably a watershed event in "modernizing" financial regulations and acknowledging the increased relevance of intangible assets such as human capital. Crucially, this initial principles-based approach gave firms flexibility in determining what human capital metrics are considered important ("material") to investors - launching the higher stakes conversation about what human capital measures matter, and introducing indecision about where firms might choose to focus. The SEC purposefully did not issue a definition for "human capital," in recognition of the concept's evolving nature and great variation across businesses and industries.[27] However, the SEC is expected to evolve its approach to be more prescriptive in updating required disclosures in the form of a new rule[28] - impacting not only publicly traded companies, but also setting a precedent that will cascade across the broader business landscape.

3. **The rise of ESG investing.** The focus on environmental, social, and governance issues in financial markets is demanding that companies measure and externally report more details on their human capital assets and strategies as the "S" in ESG now comes into greater focus. This has some overlap with the SEC's attention to human capital but is a distinct market factor. Major asset managers with trillions of dollars under management are setting the expectation that firms they invest in disclose more details on human capital. State Street Global Advisors is just one example: in 2022, State Street issued guidance that it expected management to make disclosures across five areas that are "particularly meaningful components of a successful human capital management strategy across industries:" board oversight; human capital strategy; compensation; employee voice; and diversity, equity, and inclusion.[29]

4. **The maturation of "people analytics" strategies and practices within business.** The tracking and analysis of employee-related data has traditionally been the domain of human resources (HR). However, the HR function has historically lagged behind other business functions in

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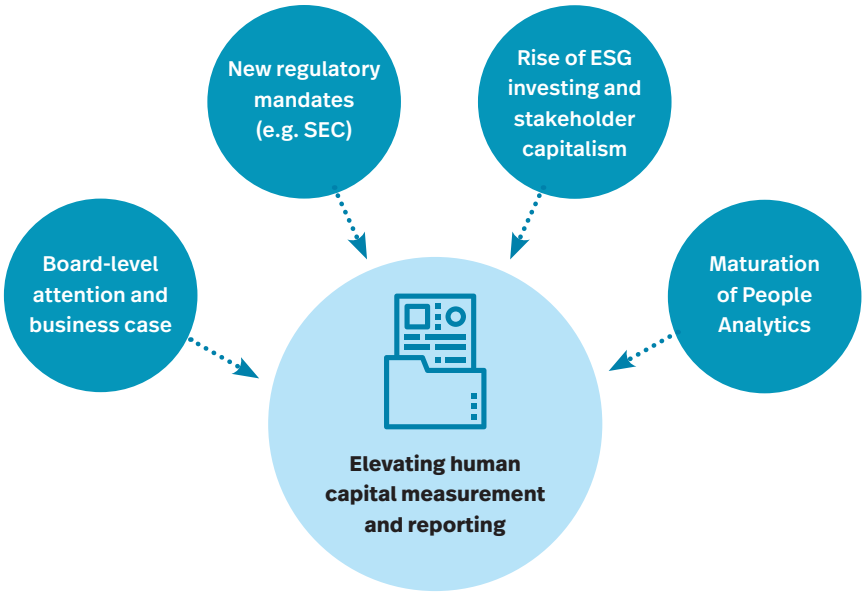
25. "SEC Adopts Rule Amendments to Modernize Disclosures of Business, Legal Proceedings, and Risk Factors Under Regulation S-K," U.S. Securities and Exchange Commission, August 26, 2020, ttps://www.sec.gov/news/press-release/2020-192.
26. Gary Gensler, "Prepared remarks at London City Week," U.S. Securities and Exchange Commission, June 23, 2021, https://www.sec.gov/news/speech/gensler-speech-london-city-week-062321
27. "Modernization of Regulation S-K Items 101, 103, and 105," U.S. Securities and Exchange Commission, https://www.sec.gov/rules/final/2020/33-10825.pdf.
28. "Human Capital Management Disclosure," Office of Information and Regulatory Affairs, Office of Management and Budget, Executive Office of the President, https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=202110&RIN=3235-AM88.
29. State Street Global Advisors, Guidance of Human Capital Management Disclosures & Practices (State Street Global Advisors, 2022), https://www.ssga.com/library-content/pdfs/global/human-capital-disclosure-practices.pdf.

adopting data-driven approaches to management.[30] As HR becomes more data-driven, and as businesses generally seek to benefit from applying analytics and data science to various functions, people analytics has emerged as a powerful new discipline and strategic focus for many companies. This is a major area of focus according to leading HR analyst Josh Bersin, who also notes that entering 2022, 83% of companies did not yet use advanced people analytics.[31] As a result, many organizations are investing in analytical expertise and new commercial technology tools that can enable better talent-related internal and external reporting. In a closely related development, new standards for human capital reporting - such as ISO 30414 - have recently been created to set the stage for consistent measurement as human capital becomes more transparent to investors, while guiding reporting and technology systems.[32]

Together, these dynamics are demanding that corporations invest in human capital measurement and reporting.

Figure 2. Drivers for Greater Attention to Human Capital Measurement & Reporting



30. Peter Cappelli, "There's No Such Thing as Big Data in HR," Harvard Business Review, June 2, 2017, https://hbr.org/2017/06/theres-no-such-thing-as-big-data-in-hr.

31. The Josh Bersin Company, HR Predictions for 2022 (The Josh Bersin Company, 2022), https://joshbersin.com/wp-content/uploads/2021/12/WT-21_12-HR-Predictions-for-2022-Report.pdf.

32. Clare Naden, "New ISO International Standard for Human Capital Reporting," ISO, January 15, 2019, https://www.iso.org/news/ref2357.html.

The Rise of Stakeholder Capitalism, Corporate Social Responsibility, and ESG

Business, society, and the environment have intersected for centuries, with the broader acknowledgment of their connectivity becoming mainstream through the concept of corporate social responsibility, and now more recently through "ESG." This developing concept replaces capitalism's original edict of only providing value to corporate shareholders and moves toward the notion that the purpose of a firm is to provide value to all stakeholders - such as employees, customers, partners, investors, and communities.

While there is no exact date to mark this shift, some of the negative effects of industry on the environment and society provided the first indication that greater attention must be paid to community impacts. In the early 1960s, pioneering environmental activism led to federal regulation of industry and the establishment of the Environmental Protection Agency.[33] In 1984, R. Edward Freeman detailed the Stakeholder Theory: a view of capitalism that focuses on the complex relationships between a business and its stakeholders such as "customers, suppliers, employees, investors, communities and others who have a stake in the organization. The theory argues that a firm should create value for all stakeholders, not just shareholders."[34]

Attention to "corporate social responsibility" or CSR grew in the 1990s and 2000s, particularly among multinational corporations.[35] Persistent environmental and societal issues surrounding large corporations drew international attention, with global powers concluding the need for coordination and collaboration. In 1992, the UN General Assembly established the United Nations Commission on Sustainable Development (CSD) to ensure effective implementation of the commitments negotiated at the United Nations (UN) Conference on Environment and Development (Earth Summit).[36] In the late 1990s, the efforts of companies such as Nike, Merck, Patagonia and others to promote a holistic view of "business as a force for good" culminated in the 2030 Agenda for Sustainable Development, signed by all UN Member States in 2015. The 17 Sustainable Development Goals (SDGs) launched a global partnership focused on sharing strategies that advance global health and education, reduce inequality, support inclusive economic growth, and most of all, protect planet earth.[37] A number of the SDGs relate to human capital: in particular, those associated with decent work and economic growth, quality education, and industry innovation and infrastructure. As Borhene Chakroun of UNESCO describes, "Social impact leads businesses to see a need and a value-add in how they contribute to societies and communities: in human capital, we've increasingly seen a focus and an engagement here at the corporate level and on the part of governments, the COVID-19 crisis amplified this phenomena."

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33. "EPA and a Brief History of Environmental Law in the United States," United States Environmental Protection Agency, https://cfpub.epa.gov/si/si_public_record_report.cfm?Lab=NERL&dirEntryId=319430#:~:text=On%201%20January%201970%2C%20President,agencies%20into%20a%20single%20entity.
34. "About the Stakeholder Theory," Stakeholder Theory, http://stakeholdertheory.org/about/.
35. Mauricio Andrés Latapí Agudelo, Lára Jóhannsdóttir, and Brynhildur Davídsdóttir, "A Literature Review of the History and Evolution of Corporate Social Responsibility," International Journal of Corporate Social Responsibility, 4, no. 1 (January 2019): 1-23. https://doi.org/10.1186/s40991-018-0039-y.
36. "Overview," Business for Social Responsibility, https://www.bsr.org/en/about/story.
37. "The 17 Goals: Sustainable Development," The United Nations, https://sdgs.un.org/goals.

In addition to government and regulatory agencies committing to sustainability and human rights, many leading corporations in the U.S. and worldwide have recently affirmed that their responsibilities go beyond that of their shareholders.[38] In 2019, the Business Roundtable, a group of nearly 200 prominent U.S. firms, updated its Statement on the Purpose of a Corporation: previous statements had endorsed principles of shareholder primacy or the idea that corporations exist solely to serve their shareholders.[39] The new statement commits to delivering value to all stakeholders in service of the companies, communities, and country, and continues with a notable emphasis on investing in employees (human capital), which starts with "compensating them fairly and providing important benefits...supporting them through training and education that help develop new skills for a rapidly changing world... fostering diversity and inclusion, dignity and respect."[40]

As referenced throughout this analysis, these types of commitments to sustainability go beyond CEO pronouncements to have increasingly consequential implications in financial markets. Consider the perspective of Larry Fink, the influential CEO of BlackRock, the single largest asset manager in the world, who noted following the Business Roundtable's announcement, "in today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders."[41]

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38. Jeffrey S. Harrison, Robert A. Phillips, and R. Edward Freeman, "On the 2019 Business Roundtable "Statement on the Purpose of a Corporation," Journal of Management 46, no. 7 (2020): 1223-1237. http://doi.org/10.1177/0149206319892669.
39. Shoonchu ShinI, Juyoung Lee, and Pratima Bansal, "From a Shareholder to Stakeholder Orientation: Evidence from the Analyses of CEO Dismissal in Large US Firms." Strategic Management Journal 43, no. 7 (2022): 1233-1257. https://doi.org/10.1002/smj.3369.
40. "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans," The Business Roundtable, August 19, 2019, https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.
41. Larry Fink, "The Power of Capitalism," 2022, https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.

ESG: A NEW BUSINESS IMPERATIVE

As described above, businesses have been embracing sustainability considerations for many years as a result of societal and market pressures. However, there is a large gap between general commitments to sustainable practices and actual accountability and measurement. Many experts suggest that this outcomes-orientation and quantitative focus is one of the key distinctions between the corporate social responsibility (or CSR) of recent decades, and today's construct of environmental, social, and governance (ESG). The acronym "ESG" emerged in the mid-2000s following a United Nations-related effort that engaged the financial community to examine the relationship between environmental, social, and corporate governance criteria and shareholder value. This ultimately resulted in a call for corporations, regulators, governments, and others to consider these dimensions in disclosures.[42] The ESG framing focuses on how businesses impact the environment; how their activities affect people; and how the business is governed. One of the core aims of the ESG framework is to develop quantitative metrics that investors can use to consider companies' ethics and associated business risks when allocating capital.[43]

Ellen Frank-Miller, founder and CEO at the Workforce & Organizational Research Center (WORC), highlights how ESG measures relate to understanding material risks in investments. "If I'm going to pour over (a company's) financials, I'm going to look at their market position and many other things - that's how I'm going to decide whether I give them millions of dollars." She continues: "If you aren't aware of the impact of poor job quality on companies' business prospects – those companies will have higher turnover, they'll have lower productivity, they'll have more burnout. So as an investor, I'd argue that's a source of beta: a source of material risk that's not priced into the asset."

90%

of the S&P 500 and

70%

of Russell 2000 companies publish some form of ESG reports

Over the last decade, ESG has grown significantly in prominence, spawning an array of ESG-focused measurement frameworks, ratings, and funds. The health, climate, and social justice-related developments in the world during the last two years only increased the attention to ESG.[44] ESG is now mainstream, with 90% of S&P 500 companies currently publishing some version of ESG reports, as well as 70% of Russell 1000 companies.[45] ESG assets (such as ESG-focused stock funds and bonds) are estimated to reach $50 trillion by 2025, up from $35 trillion in 2020.[46] According to the Harvard Law School Forum on Corporate Governance, client expectations and reputational concerns are driving momentum for ESG among major asset managers and other investors: in North America, ESG is considered or applied in the investment approach of 61% of

42. The United Nations Environment Programme Finance Initiative, The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing (UNEP Finance Initiative, June 2004): https://www.unepfi.org/fileadmin/documents/amwg_materiality_equity_pricing_report_2004.pdf.
43. Francesca Messini, Fabienne Brilland, Oriane Kaesmann, and Thibaut Schots, "CSRD: Cornerstone of EU's Sustainable Finance Strategy for Quality Investor ESG Data," Deloitte, June 24, 2021, https://www2.deloitte.com/lu/en/pages/investment-management/articles/csrd-cornerstone-eu-sustainable-finance-quality-investor-esg-data.html.
44. Messini et al., "Sustainable Finance Strategy."
45. Lucy Pérez, Dame Vivian Hunt, Hamid Samandari, Robin Nuttall, and Krysta Biniek, "Does ESG Really Matter–and Why?" McKinsey Quarterly, August 10, 2022, https://www.mckinsey.com/business-functions/sustainability/our-insights/does-esg-really-matter-and-why.
46. "ESG May Surpass $41 Trillion Assets in 2022, But Not Without Challenges, Finds Bloomberg Intelligence," Bloomberg, January 24, 2022, https://www.bloomberg.com/company/press/esg-may-surpass-41-trillion-assets-in-2022-but-not-without-challenges-finds-bloomberg-intelligence/.

global investors, and "central" to the investment approach of another 18%.[47] A survey by PwC found that half of North American businesses now have a chief sustainability officer, and the number of executive appointments has tripled between 2020 and 2021 as corporate executives and boards responded to ESG demands.[48]

However, it is also worth noting that ESG is coming under scrutiny not only due to its scale and growth, but because of the politicized nature of ESG as an investment strategy - for example, a state pension fund being barred from investing in oil companies. Here it is crucial to draw an underappreciated distinction between ESG as a driving investment philosophy and mandate, versus ESG dynamics as important investment *considerations* related to risk.[49] Indeed, an ESG-focused mutual fund might *only* invest in clean energy companies for example, and it remains to be seen if this "responsible" investment strategy can outperform the market. The bigger trend, however, is the recognition of ESG as a lens through which *all* investments and businesses can be viewed: a framework to consider environmental, social, and governance issues in the assessment of opportunity and risk. This latter perspective extends well beyond the concept of ESG-focused investment vehicles - and represents an evolution of stakeholder capitalism that responds to new demands for greater corporate transparency, accountability, and sustainability.

As Shoshana Vernick, co-founder and managing director of Avathon Capital notes, "Investing is science and art – very traditional valuation approaches look at applying a market multiple to a company's revenue or earnings stream, or applying a discount rate to a company's future cash flow projections. But how do you determine what the multiple is? How do you determine what discount factor to use? That's where assessing sustainability of outcomes and growth become essential."

Voluntary ESG disclosures are increasingly being replaced by frameworks for mandated reporting via regulatory authorities - most notably via the SEC's focus on ESG themes such as climate change, board diversity, and human capital management as part of its investor protection mandate.[50] This direction helps cement ESG-related reporting as something that is mandatory for corporations rather than just a "nice to have." This adds urgency to the need for reliable and comparable human capital data as the "S" category within ESG is developed. Notably, although most of the SEC's direct impact is on public companies, these reporting requirements will have a trickle-down effect in the market and set the long-term expectations for private companies and smaller firms.

"ESG investing is at a critical juncture and the next few years may well witness a great leap forward and mainstreaming in the investment community," according to Allen White, co-founder of the Global Reporting Initiative (GRI) and vice president and senior fellow at the Tellus Institute. "Even if a company is indifferent to worker and community well-being and climate change, it must be concerned about attracting capital. As ESG -screened investments continue to attract trillions

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47. Jessica Ground, "ESG Global Study 2022," Harvard Law School Forum on Corporate Governance, June 17, 2022, https://corpgov.law.harvard.edu/2022/06/17/esg-global-study-2022/.
48. Peter Gassmann et al., Empowered Chief Sustainability Officers (PwC, 2022), https://www.strategyand.pwc.com/de/en/functions/esg-strategy/empowered-chief-sustainability-officers.html
49. Stuart Kirk, "ESG Must Be Split in Two," The Financial Times, September 2, 2022, https://www.ft.com/content/4d5ab95e-177e-42d6-a52f-572cdbc2eff2.
50. Kristen Sullivan, Maureen Bunjo, and Kimia Clemente, "Navigating the ESG Journey in 2022 and Beyond," Deloitte, 2022, https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/navigating-the-esg-journey-in-2022-and-beyond.html.

of dollars in capital markets worldwide, it has rapidly moved from the fringe to the mainstream. Against this backdrop, the demand for rigorous, timely, comparable data and rankings on ESG performance has become indispensable to both companies and the capital markets on which they depend," says White.

The Social Component of ESG Comes into Focus, Including Human Capital

ESG has captured the attention of corporate executives and investors, and the concept has spawned an entire new industry related to ESG compliance, ratings, and consulting. However, the vast majority of the ESG activity to date has centered on the environmental sustainability, or "E" component of the acronym, reflecting where the business sustainability movement began. Environmental disclosures are the most mature and represent the greatest focus within most ESG frameworks - and have become the focus of most of today's corporate ESG leaders.

ESG

The *social* component - the "S" in ESG - is now receiving greater focus, and features a company's employees as a core element, alongside customers, suppliers, and community. The "S" in ESG can be described as encompassing how a company treats and values people.[51]

Pressures have been growing for companies to pay more attention to worker well-being. Recent polling in 2021 by non-profit JUST Capital shows that 81% of the American public believes "the current job market indicates that it's time for corporations to reassess how they treat workers if they want to stay competitive, rather than reverting to the status quo in their treatment of workers."[52] Maureen Conway, VP of policy programs and executive director of the Aspen Institute's Economic Opportunity Program argues that "the U.S. labor shortage is the deserved outcome of a systemic failure to value workers."[53]

Another key factor is reputational risk in today's age of ubiquitous social media use, where negative news about worker conditions, supply chain problems, or community impacts spreads rapidly. Consumers' higher levels of awareness and engagement today mean greater levels of risk in the event of negative news about corporate behavior. This means higher stakes and potential negative impacts to companies' brand, revenues, stock market value, talent attraction and retention, and opportunities to collaborate with other institutions. Moreover, recently, there have been multiple discussions about poor behavior by both management and line employees (e.g., harassment and toxic cultures). Left unchecked, such situations can become a major reputational and financial risk for a company. Experts interviewed for this study point to the examples of the SEC's investigation into Activision Blizzard, Inc. related to workplace misconduct and disclosures, and Tesla's removal from the S&P 500 ESG index due to its perceived social and governance risks, even given its environmental leadership.[54]

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51. Lingjun Jiang, Angela Ferguson, Jaclyn Yeo, and Rob Bailey, ESG as a Workforce Strategy (Marsh & McClennan, 2020), https://www.marshmclennan.com/content/dam/mmc-web/insights/publications/2020/may/ESG-as-a-workforce-strategy_Part%20I.pdf.
52. JUST Capital, JUST Capital's 2022 Workforce Equity and Mobility Ranking (JUST Capital, August 11, 2022), https://justcapital.com/reports/annie-e-casey-foundation-2022-workforce-equity-and-mobility-ranking-top-100-companies/.
53. Maureen Conway, "The U.S. Labor Shortage is the Result of a Failure to Value Workers," Quartz, March 29, 2022, https://qz.com/2147818/the-us-labor-shortage-is-the-result-of-a-failure-to-value-workers/.
54. Kirsten Grind and Sarah E. Needleman, "SEC Is Investigating Activision Blizzard Over Workplace Practices, Disclosures," The Wall Street Journal, September 20, 2021, https://www.wsj.com/articles/sec-is-investigating-activision-blizzard-over-workplace-practices-disclosures-11632165080; Jack Ewing and Stephen Gandel, "Sustainability Index Drops Tesla, Prompting Insult from Musk," The New York Times, May 18, 2022, https://www.nytimes.com/2022/05/18/business/tesla-esg-index-musk.html.

“If you’re mismanaging your people behind the scenes, you’re creating more risk and liability that investors don’t want or need,” says Jeff Higgins, CEO of the Human Capital Management Institute. He continues: “Some companies seem to think that by not disclosing, they keep all this secret. Have they heard of LinkedIn, Facebook, social media? What happens is somebody gets disgruntled and they have an easy venue to get things out into the public sphere in a big way very quickly.”

Yet, as important as the “S” in ESG is becoming, precisely what it should include is still being defined. “The S has always been elusive – shades of gray,” offers ESG and international development expert Luiz Gabriel Azevedo. He adds: “In the E space, it’s much more objective: are you polluting or not? You have a standard, you have a measurement, yes or no. In the corporate governance space, is there collusion or corruption? In the social space, it’s a lot more subjective. And more and more we see emerging issues that have added to that complexity: things like human rights, and how you deal with grievances.”

Similarly, IBM’s VP and global head of corporate social responsibility and ESG, Justina Nixon-Saintil, draws a comparison to the clarity of climate measures and highlights how today represents a key moment: “With the S, there hasn’t been a convergence yet on disclosures – how can you report on the ‘S’ in an impactful way? I think that’s really going to unfold in the next few years.”

Analysis of Key Human Capital Measurement and Reporting Frameworks

As awareness of the importance of human capital grows, frameworks developed by coalitions of experts in the field and standards bodies can help provide organizations with a roadmap for what human capital measurements are meaningful to measure and report on. However, the nascency of human capital measurement, its often qualitative nature, and the complexities of various third-party reporting frameworks can at times make alignment a challenge.

The nascency of human capital measurement, its often qualitative nature, and the complexities of various third-party reporting frameworks can at times make alignment a challenge. Frameworks help provide a strategic blueprint for what human capital items to measure and why.

In recent years, there has been an explosion of reporting frameworks available within both the human capital arena and ESG. Key human-capital centric frameworks include the Human Capital Management Coalition's (HCMC) guidelines, and the relatively new ISO standard 30414 developed by a committee of experts. For ESG, there are more than 600 international reporting frameworks that organizations utilize - each with widely varying levels of attention paid to "S" topics, including human capital.[55]

In our research, we uncovered and explored numerous frameworks that address human capital measurement, several of which were agreed upon by experts as the most influential: the Human Capital Management Coalition (HCMC), the International Organization for Standardization's (ISO) 30414, the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). The recommendations produced by these organizations are a culmination of many years of work and represent collective reflection and expertise on what aspects of human capital organizations should focus on measuring and reporting. As reporting transitions from voluntary to mandatory, both investors and regulators will likely prescribe more specific reporting requirements. In the past few years, asset managers BlackRock, Vanguard and State Street have called on companies to align their ESG disclosures with SASB and TCFD (Task Force on Climate-related Financial Disclosures), signaling a desire for greater unification and coordination. Understanding frameworks - their strengths, weaknesses, and differences - will be important as they become ubiquitous in the corporate landscape.

Additionally, there are numerous rating agencies such as MSCI, Sustainalytics, Moody's, and S&P, that evaluate a firm's ESG activities and assign a rating to help potential investors make decisions.[56] These rating agencies may provide insight into leading topics and metrics that companies should care about, but they do not necessarily provide guidance on what and how to report - and instead review reported information and provide an assessment of risk based on that data. Of course, their focus is on ESG more broadly, rather than the details of human capital necessarily. Finally, beyond frameworks and rating agencies, there are models that help companies evaluate their human capital strategies and to support benchmarking and the pursuit of best practice, often with a focus on employee job quality. The Good Jobs Institute, Jobs for the Future, The Aspen Institute's Economic Opportunities Program, and Grads of Life are examples of organizations or initiatives that seek to help companies evaluate the quality and character of the employment they provide, in response to the greater attention to factors such as job quality; employee experience; and diversity, equity, and inclusion.

The continued evolution of ESG and human capital reporting frameworks, and other job quality and measurement models, is important in moving the field forward - yet the proliferation of frameworks

55. Stina Warnstam Drolet, Mark Elsner, Isabella Bunn, and Reza Hasmath, The Future of Sustainability Reporting Standards (EY, June 2021), https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/sustainability/ey-the-future-of-sustainability-reporting-standards-june-2021.pdf.

56. Anna Hirai and Andrew Brady, "Managing ESG Data and Rating Risk," Harvard Law School Forum on Corporate Governance, July 28, 2021, https://corpgov.law.harvard.edu/2021/07/28/managing-esg-data-and-rating-risk/.

and standards without widely accepted guidelines can create confusion for corporate leaders. "Frankly, the struggle right now is, since no global framework standard exists, the way in which human capital metrics are defined is malleable. Organizations can 'bend and mold' metrics and reporting to meet their needs," notes Tyrone Smith, Jr., global head of people analytics at Udemy. Bruce Bolger, founder of the Enterprise Engagement Alliance, describes the current landscape: "It's chaos out there – it's buzzwords, hype, bright shiny objects, just like Total Quality Management was in the '80s," noting that eventually the initial wave of hype gave way to better practices and results years later.

Because of this, many experts are skeptical about the proliferation of frameworks, and would prefer that existing standard bodies focus on coordination and simplification. Despite the chaos, some are hopeful the heightened attention to frameworks will lead to needed maturation. Cat Ward, vice president at Jobs for the Future explains, "This topic is having a moment right now. The field as I've observed it has gotten more crowded with frameworks, with various approaches employers can take. But we can see some of that as a positive. The field is maturing. And in that maturation, we're going from employers making big bold commitments to being held accountable." In fact, in the last few years, consolidation among several major international reporting organizations has occurred. In 2021, SASB and the International Integrated Reporting Council (IIRC) merged to create the Value Reporting Foundation, and later that year was absorbed by the International Financial Reporting Standards Foundation (IFRS).

David Vance, executive director of the Center for Talent Reporting, compares accounting standards to standards for human capital reporting. "If GAAP has worked so well for the accounting profession, in providing a great framework, definitions of measures, and three standard financial statements – why doesn't learning and the field or HR have something similar? ... There are hundreds of measures – so you need a framework and some way of talking about them. Chemistry has it in the periodic table, biologists have it, astronomers have it – so we need a framework in our field." Greater standardization and consensus on what metrics are important can help firms focus their efforts. Bruce Bolger explains that standards are "a way to benchmark your own activities, and as an observer, to benchmark the activities of a company you're observing - by organizing the analysis by the key criteria that are indicative of effectiveness. These include: having a clear, stated organizational purpose; objectives, methodologies, and metrics for each key aspect of stakeholder management, and a process for continuous improvement."

These many standardized categories and widely accepted frameworks help build consensus and common reporting practices on complicated metrics that organizations might be less experienced measuring and reporting. Collectively they can positively drive organizational strategy and create cohesion in the market, allowing for greater transparency, and benchmarking for stakeholders at all levels.

SELECTED HUMAN CAPITAL REPORTING FRAMEWORKS

HCMC. Founded in 2013, the Human Capital Management Coalition (HCMC) is a cooperative effort of asset owners that seeks to elevate human capital management as a critical component of company performance.[57] The coalition includes 36 institutional investors representing more than $8 trillion in assets, including Northern Trust, BMO Global Asset Management, and Trillium Asset Management. HCMC puts forth a reporting paradigm comprising four foundational metrics: (1) the number of employees, including full-time, part-time and contingent labor; (2) total workforce cost; (3) turnover; and (4) employee diversity and inclusion, especially by senior management. Described as a "balanced approach," HCMC believes that both universal, mandatory metrics and principles-based information are needed to provide a holistic view of human capital management.[58] Principles-based reporting differs from universal, mandatory reporting (also known as "rule-based") in that it allows companies the flexibility to tailor their human capital disclosure to their specific facts and circumstances, whereas universal reporting is rigid and prescriptive.[59]

ISO 30414. ISO, the International Organization for Standardization, has more than 24,400 standards across a variety of industries. ISO was established in 1946 to facilitate international cooperation and standards in commerce. In 2018, ISO published standard 30414 describing: "guidelines for internal and external human capital reporting," which outlines 58 metrics divided into 11 categories. These include compliance and ethics; costs; diversity; leadership; organizational culture; organizational health, safety and well-being; productivity; recruitment, mobility and turnover; skills and capabilities; succession planning; workforce availability.[60] For this standard, the term human capital encompasses all stakeholders – employees, customers, vendors, communities, investors – not just employees.[61] This standard provides guidance on which measures are most relevant to leaders, how some of them should be calculated, and how they should be reported.[62] ISO 30414 was created using a "lengthy, deliberative and consensus-based process" involving human capital experts from around the world, a project that originated by a Society for Human Resource Management (SHRM) working group.[63]

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57. "HCMC Toolkit," Human Capital Management Coalition, 2020, https://uawtrust.org/AdminCenter/Library.Files/Media/501/About%20Us/HCMCoalition/hcmctoolkit.pdf.
58. "Foundational Human Capital Reporting: Taking a Balanced Approach," Human Capital Management Coalition, 2021, https://www.hcmcoalition.org/foundational-reporting.
59. William Hinman, "The Regulation of Corporation Finance - A Principles-Based Approach," U.S. Securities and Exchange Commission, November 18, 2020, https://www.sec.gov/news/speech/hinman-regulation-corporation-finance-2020-11-18.
60. "New ISO International Standard for Human Capital Reporting," ISO, January 15, 2019, https://www.iso.org/news/ref2357.html.
61. Ron B. McKinley and Lee S. Webster, "Why Every Organization Can Benefit From ISO 30414 Human Capital Reporting Standards," Engagement Strategies Media, https://www.enterpriseengagement.org/articles/content/8634407/why-every-organization-can-benefit-from-iso-30414-human-capital-reporting-standards/.
62. Zahid Mubarik and Lee Webster, "ISO 30414 Frequently Asked Questions," Human Capital Impact, https://hcm-impact.com/faqs.
63. McKinley and Webster, "ISO 30414 Reporting"

SELECTED ESG FRAMEWORKS THAT ADDRESS HUMAN CAPITAL

For ESG reporting more broadly, the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) were repeatedly cited by interviewed experts and other sources as especially influential in advancing and describing human capital measures within the "S" in ESG.

GRI. The GRI can be described as the "genesis, foundational multi-stakeholder corporate disclosure framework," according to Lane Jost, executive vice president for ESG Advisory at communications firm Edelman. In fact, 70% of Global Fortune 500 companies use or refer to the GRI Standards.[64] Founded in 1997, following public outcry over the environmental damage of the Exxon Valdez oil spill, the GRI was jointly established by the Coalition of Environmentally Responsible Economies (CERES), in conjunction with the United Nations Environment Programme. GRI's founding is associated with developments in consumer, investor and shareholder activism in the United States (1970s) and increasing norms around corporate social responsibility and governance.[65]

In 2000, the GRI published the first global sustainability reporting framework and has iterated and improved upon it since, culminating in a set of Universal Standards – which apply to all organizations – as well as sector-specific standards and topic standards. Under this system, human capital measures are included both in the Universal Standards as well as the Standard 400 (Social). Topics covered include: Employment; Labor/Management Relations; Occupational Health and Safety; Training and Education; Diversity and Equal Oppotunity; Non-disciminration; Freedom of Association and Collective Bargaining; Child Labor; Human Rights Assessment; Local communities; Supplier Social Assessment; Public Policy; Customer Health & Safety; Marketing & Labeling; Customer Privacy and Socioeconomic Compliance.[66]

SASB. The Sustainability Accounting Standards Board (SASB) was established in 2011 as a nonprofit to help businesses and investors develop a common language about the financial impacts of sustainability. Available for 77 industries, the SASB standards identify the subset of ESG issues most relevant to financial performance within each industry. In 2019, SASB initiated the Human Capital Research Project in order to assess the materiality of various human capital management themes across SASB standards. While SASB asserts that human capital is well-represented throughout its latest existing version of the standards, the organization felt that human capital deserved more attention and interest: ultimately, SASB encouraged a thorough

64. "A Business Case for Environment & Society," The GRI Perspective, January 24, 2022, https://www.globalreporting.org/media/ervdeb02/gri-perspective-business-case-for-environment-and-society.pdf.

65. Brown, Halina Szejnwald, Martin De Jong, and Teodorina Lessidrenska. "The rise of the Global Reporting Initiative: a case of institutional entrepreneurship." Environmental politics 18, no. 2 (2009): 182-200, https://doi.org/10.1080/09644010802682551.

66. "How to use the GRI Standards," Global Reporting Initiative, https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/.

review of how they address human capital topics.[67] Currently, SASB addresses three relevant, financially-material issues related to human capital management: employee health and safety; employee diversity, inclusion and engagement; and labor practices.[68] With the recent consolidation of SASB under the International Sustainability Standards Board (ISSB), the research project's status is unclear. A project status update published in 2021 relayed additional HC topics the committee found compelling: workforce composition, workforce costs, and workforce turnover, as well as further reporting on diversity, equity and inclusion.[69]

67. "Human Capital," SASB Standards, The IFRS Foundation, https://www.sasb.org/standards/process/projects/human-capital/.

68. "Human Capital," SASB Standards.

69. "Human Capital," SASB Standards.

ANALYSIS OF KEY EMPHASES, COMMONALITIES, AND GAPS ACROSS SELECTED REPORTING FRAMEWORKS

The table and discussion below compare and contrast these frameworks to highlight commonalities and gaps. For this exercise, human capital measures are arranged by common categories.

	ISO 30414[70]	HCMC[71]	GRI[72]	SASB[73]
Headcount	• # of employees: full-time, contingent, independent, temporary, part-time • Absenteeism rate	• How many workers (including employees and independent contractors) the company uses to accomplish its strategy	• # of employees: permanent, temporary, non-guaranteed hours, full-time, part-time broken down by gender and region for each category • Report the total number of workers who are not employees and whose work is controlled by the organization and describe reporting methodologies and fluctuations between reporting periods	• Worker demographic metrics
Recruitment	• Number of qualified candidates per position • Quality per hire • Average length: time to fill vacant & critical vacant positions • Transition and future workforce capabilities assessment • Percentage of positions & critical vacant positions filled internally • Percentage of vacant critical business positions in relation to all vacant positions	*Recruitment is referenced in the turnover category*	• # of new hires by age group, gender and region	• Discussion of talent recruitment and retention efforts for scientists, research and development personnel, and health care practitioners
Diversity	• Workforce diversity with respect to age, gender, nationality, disability, job family, job level/hierarchy, qualification, diversity of leadership team	• Diversity data, including diversity by seniority, sufficient to understand the company's efforts to access and develop new sources of human capital and any strengths or weaknesses in its ability to do so	• Diversity of governance bodies and employees: by gender, age group and other indicators (minority or vulnerable groups) • Ratio of basic salary and remuneration of women to men • Incidents of discrimination and corrective actions taken	• Percentage of gender and racial/ethnic group representation for management, technical staff, and all other employees • Percentage of employees that are foreign nationals (or H-1B visa holders)

70. "ISO 30414 - A Beginner's Guide," Human Capital Management Institute, https://www.hcmi.co/iso-30414-a-beginner-guide.

71. "Foundational Human Capital Reporting," Human Capital Management Coalition.

72. "GRI Standards," Global Reporting Initiative

73. "SASB Human Capital Bulletin," SASB, The IFRS Foundation, https://www.sasb.org/knowledge-hub/sasb-human-capital-bulletin/.

Turnover	• Voluntary & involuntary rate • Involuntary critical turnover rate • Leaving employment by reason	• Turnover, including management's actions to attract and retain workers and how changes in the ability to attract and retain workers affects the company's performance and strategy	• Rate by age group, gender and region	• Voluntary and involuntary turnover rate for all employees
Training & Education; Employee Development	• Total development and training costs • Learning and development information • Workforce competency rate • Internal mobility rate • Succession planning	*Not addressed*	• Average hours of training per year per employee • Programs for upgrading employee skills and transition assistance programs • Percentage of employees receiving regular performance and career development reviews	*Not addressed*
Health & Safety	• Lost-time for injury • Number of occupational accidents • Number of people killed during work (fatality, death or mortality rate) • Training hours on health and safety at work vs. total amount of training hours • Number of employees who participated the training/ total numbers of employees	*Not addressed*	• Occupational health and safety management system • Hazard identification, risk assessment, and incident investigation • Occupational health services • Worker participation, consultation, and communication on occupational health and safety • Worker training on occupational health and safety • Promotion of worker health • Prevention and mitigation of occupational health and safety impacts directly linked by business relationships • Workers covered by an occupational health and safety management system • Work-related injuries • Work-related ill health	• Total recordable incident rate • Fatality rate for direct employees; contract employees • Safety Measurement System BASIC percentiles for: Unsafe Driving, Hours-of-Service Compliance, Driver Fitness, Controlled Substances/ Alcohol, Vehicle Maintenance, and Hazardous Materials Compliance • Description of efforts to assess, monitor, and mitigate acute and chronic respiratory health conditions *Provides additional metrics customized to various industries*
Engagement & Culture	• Engagement, satisfaction, commitment • Retention rate • Productivity - revenue, turnover, profit per employee • Human capital return on investment	*Not addressed*	• Describe its approach to engaging with stakeholders, including: the categories of stakeholders it engages with, and how they are identified; the purpose of the stakeholder engagement; how the organization seeks to ensure meaningful engagement with stakeholders.	• Employee engagement as a percentage
Leadership & Management	• Leadership trust • Span of control • Percentage of leaders/ talents who have formal mentors or coaches • Percentage of leaders who have the formal function of mentors or coaches	*Not addressed*	*Not addressed*	*Not addressed*

Wages, Benefits & Workforce Costs	• Total workforce costs • External workforce costs • Ratio of the basic salary and remuneration for each workforce category • Total costs of employment • Cost per hire • Recruitment costs • Turnover costs	• Total cost of the workforce, presented in a way that evinces a discernible through-line from the company's audited financial reports to issuer disclosures	• Ratio of compensation (highest-paid to median for all employees) • Ratio of percentage increase in compensation for highest-paid compared to median of all employees • Report contextual information necessary to understand the data and how the data has been compiled. • Parental leave (including # qualified for leave, # who took leave, returned to work, and were retained after 12 months; by gender) • Standard benefits provided to full-time employees (compared to part-time or temporary) by region.	• Average hourly wage and percentage employees earning minimum wage, by region
Labor Practices & Ethics	• Number and type of grievance filed • Training hours on compliance and ethics • External dispute resolutions • Number, type and source of external audit • Findings and actions arising from these	*Not addressed*	• Report the percentage of total employees covered by collective bargaining agreements • Describe the mechanisms for individuals to: seek advice on implementing the organization's policies and practices for responsible business conduct; raise concerns about the organization's business conduct. • Minimum notice periods regarding operational changes	• Percentage of active workforce covered under collective bargaining agreements • Total amount of monetary losses as a result of legal proceedings associated with labor law violations • Number of work stoppages and total days idle
Harassment & Discrimination	*Not addressed*	*Not addressed*	• Incidents of discrimination and corrective actions taken	• Description of policies and programs to prevent worker harassment • Total amount of monetary losses as a result of legal proceedings associated with employment discrimination
Supply Chain & Stakeholder Engagement	*Not addressed*	*Not addressed*	• Security personnel trained in human rights policies or procedures • Incidents of violations involving rights of indigenous peoples • Operations with local community engagement, impact assessments, and development programs • Operations with significant actual and potential negative impacts on local communities • *Various supply chain metrics*	• *Various supply chain metrics*

Common measures across the frameworks include:

- **Basic data on employees.** As might be expected, these frameworks ask firms to report their number of employees, including segmentation by specific employment categories such as full-time, part-time, contingent or temporary. The GRI is unique in that it further asks firms to segment these categories by gender and region.
- **Diversity.** All of the above frameworks ask organizations to report on workforce diversity by job status or hierarchy. Further, the GRI calls for reporting the salary ratio for male versus female employees as a method to expose any gender pay gap equity issues.
- **Turnover.** All four of the above frameworks ask for turnover data, while HCMC clarifies that disclosures should include explanation of "management's actions to attract and retain workers and how changes in the ability to attract and retain workers affects the company's performance and strategy."[74]
- **Health & Safety.** ISO, SASB and GRI require thorough reporting on health and safety matters with attention to accident prevention and training systems. SASB provides deeper healthy and safety standards for specific industries. HCMC does not include health and safety in its four foundational metrics but acknowledges its importance as a subjective metric open to industry and organizational specific contexts.

Notable differences across the frameworks include:

- **Training & Development.** Only ISO and GRI address training-related metrics. GRI asks firms to calculate the average hours of training per year per employee, and to list out programs for upgrading employee skills. In addition to reporting training and development costs, ISO specifies calculations on workforce competency rate (the average competency ratings assigned to employees) and internal mobility rate.
- **Recruitment.** There is significant variation in how the frameworks treat recruitment data, with ISO offering the most detail. Basic new hire data is reported in GRI and SASB, while ISO asks pointed questions on the entire recruitment process: length of time to fill vacant positions, recruitment for vacant versus critical vacant positions, as well as transition and future workforce capabilities assessment.
- **Harassment & Discrimination.** Minimal reporting regarding harassment and discimination and corrective action is required across all frameworks. GRI and SASB require basic reporting on these topics while ISO 30414 and HCMC's standards appear to make no mention of these concepts.
- **Leadership & Management.** ISO is unique in the attention it gives to leadership, calling firms to report leadership trust, span of control, and formal mentorship and coaching for leaders.
- **Supply Chain.** SASB and GRI both include a significant number of measures on the practices and policies of firms' suppliers.

74. "Foundational Human Capital Reporting," Human Capital Management Coalition.

HCMC takes a unique approach compared to other bodies in that rather than a long list of topics with subtopics, HCMC created four foundational standards it describes as "modest and universally-applicable." These four categories of metrics are thought to be applicable to all organizations and are believed to be "reliable, consistent, clear and comparable." Then, these four foundational metrics should be combined with principles-based metrics, which vary across industries and companies. Principles-based metrics include categories such as health and safety data, training and development programs, employee engagement, human and labor rights, compensation and benefits. HCMC found that when firms are asked to report on "material" human capital issues, there is not enough cohesion on what is agreed upon as material. These four foundational metrics serve as baseline reporting standards that all organizations, regardless of industry, can adopt.

Reporting under these frameworks is not always as straightforward as simply collecting data. Some topics require both quantitative and qualitative information, and the calculation of ratios: firms must often be capturing information *longitudinally* over several stretches of time in order to demonstrate progress or growth in particular areas.

Many reporting frameworks are thought to be convoluted and confusing due to asking for too much information, requiring a mix of qualitative and quantitative information, and sometimes requiring complex mathematical calculations. GRI recommends approximately 30 measures for human capital and ISO 30414 includes 48 measures. Additionally, each metric (across all frameworks) may require even further granularity. Consider for example, the GRI's disclosure 401-3 Parental Leave, as an example. This requests not only the total number of employees that were entitled to leave (by gender), but the number that took leave; returned to work in the reporting period after leave; were still employed 12 months after their return; and the return to work and retention rates of employees that took leave - all by gender.[75]

Reporting under these frameworks is not always as straightforward as simply collecting data. Some topics require both quantitative and qualitative information, and the calculation of ratios. For example, in reporting training and development data, ISO 30414 asks for information on the workforce competency rate, internal mobility rate and succession planning. As another example, GRI 2-21 provides a formula for calculating the "annual total compensation ratio," based on comparing the organization's highest paid individual to the median pay.[76]

In addition to sometimes complicated calculations, the wide range of topics and themes that might be considered under "human capital" requires firms to reach across their organizational system to pull data - health and safety, collective bargaining, benefits and wages, training and development, and more. To map to the frameworks, firms must be capturing information in each of these areas - and often *longitudinally* over several stretches of time in order to demonstrate progress or growth in particular areas.

Importantly, SASB, GRI, and HCMC each acknowledge there will inevitably be differences in reporting across sectors. In fact, SASB is entirely industry-based, meaning rather than creating a universal set of standards, SASB issues 77 standards across 11 industries, each including relevant specific metrics. GRI has recently begun implementing sector-specific standards, and in 2020 launched the GRI 11 (oil and gas), GRI 12 (coal) and GRI 13 (agriculture, aquaculture and fishing), with the goal of developing standards for 40 sectors in total.[77] For reporting on human capital,

75. GRI 401: Employment 2016 (Amsterdam: Global Reporting Initiative, 2018).

76. GRI 2: General Disclosures 2021 (Amsterdam: Global Reporting Initiative, 2021).

77. "Reporting with the Sector Standards," Sector Program, Global Reporting Initiative, https://www.globalreporting.org/standards/sector-program/#:~:text=Reporting%20with%20the%20Sector%20Standards,that%20have%20the%20highest%20impact.&text=Read%20about%20the%20program%20overview%20to%20learn%20more.

ISO explains that standard 30414 is "applicable to all organizations, regardless of the type, size, nature or complexity of the business, whether in the public, private or voluntary sector, or a not-for-profit organization."[78]

Other key distinctions include SASB and GRI's focus on social issues related to human capital – such as human rights, operations with local communities, collective bargaining and union activity – that ISO 30414 and HCMC does not substantially include. In addition, while the GRI, SASB and HCMC frameworks are free and accessible online, firms must purchase access to ISO standards. That said, the complicated nature of GRI and SASB - and ESG-related reporting in general - often require organizations to turn to third-party consultants and other entities to help them manage their reporting.

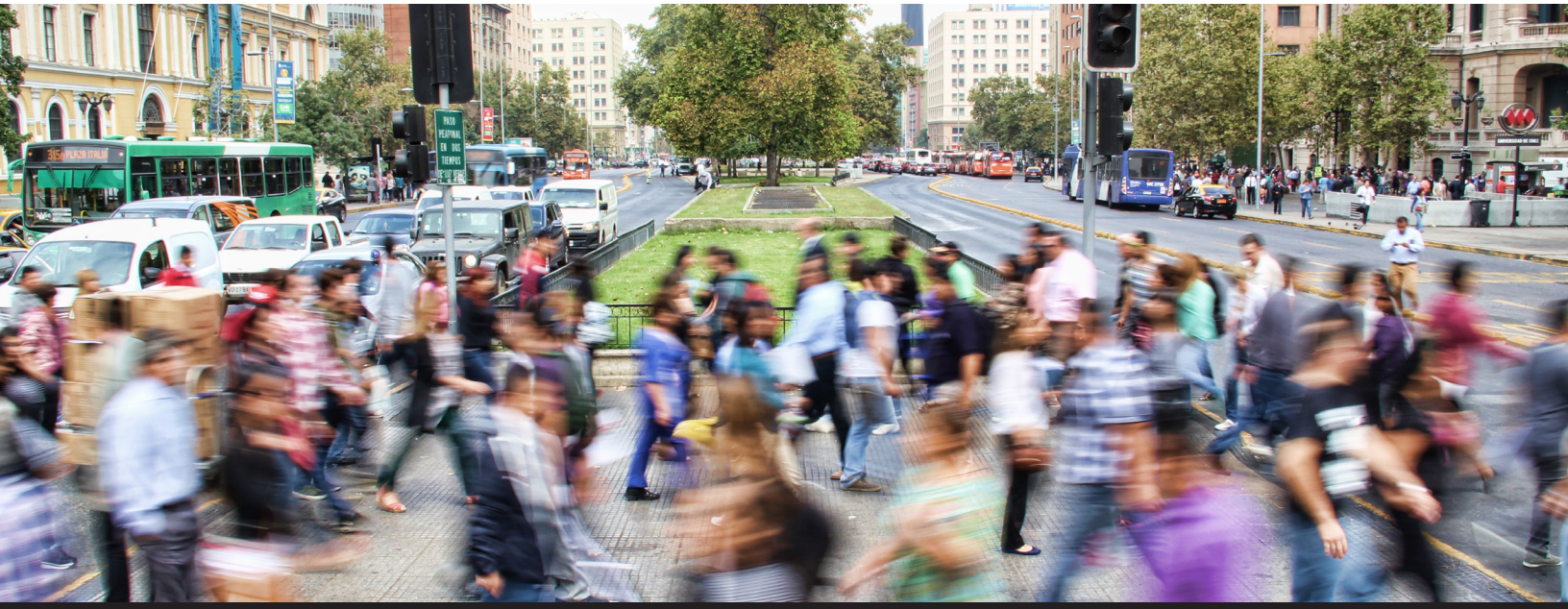
Other Frameworks and Models

There are also numerous models and frameworks that are less about external reporting and more about good practice. These models offer principles that companies can consider, implement, or assess themselves against, with some overlap in the content of the human capital reporting frameworks addressed earlier – and often with a focus on job quality. The following represent some illustrative examples encountered in our research.

Founded in 2017, nonprofit The Good Jobs Institute aims to help companies improve the jobs and lives of their employees while simultaneously boosting their company's performance. Co-founded and inspired by MIT Professor Zeynep Ton's influential book, *The Good Jobs Strategy*, the Institute defines a blueprint for organizations that "wants to pursue a sustainable competitive strategy in which everyone – employees, customers, and investors – wins."[79] The Institute outlines nine factors that define a good job, emphasizing that a good job is more than meeting basic needs such as pay, schedules, and career pathways, but should also address higher needs such as meaningfulness,

78. ISO 30414, 1st ed. (International Organization for Standardization, December, 2018), https://www.iso.org/standard/69338.html.

79. "The Good Jobs Strategy," Zeynepton.com, https://www.zeynepton.com/book/.



personal growth, belonging, and achievement/recognition.[80] Additionally, the Good Jobs Institute offers various assessment tools to help companies assess progress on improving job quality. These tools are highlighted in the Aspen Institute' Economic Opportunities Program, which has compiled a variety of tools on understanding and assessing job quality, strengthening business practices and monitoring improvements in job quality.

Jobs for the Future (JFF), a national workforce- and education-focused nonprofit, created the Impact Employer Talent Framework, an approach that redesigns standard business practices to be more worker-centric. For each "lever," JFF provides suggested implementation strategies, evidence outlining the business imperative for making these changes, and examples of firms doing well in these areas. One dimension uncommon among human capital and ESG frameworks is efforts around offboarding (e.g. layoffs), where JFF suggests practices like partnering with local community colleges or nonprofits to offer training opportunities to departing employees.[81]

Grads of Life, a nonprofit incubated by Year Up, focuses on closing the opportunity divide and driving equity in corporate settings.[82] Created in partnership with Bain & Company, Grads of Life utilized a data-driven, evidence-based approach and developed five pillars of diversity, equity and inclusion. Sparsely incorporated in other job quality discussions, Grads of Life makes DEI central to its approach. Models, like Grad of Life, are unique in that they offer implementation strategies. Grads of Life, for example, produced a list of 50 ideas inspired by their five pillars that provide firms with concrete steps on how to enact DEI in their organizations.

Human capital reporting frameworks and standards can be valuable resources for organizations, investors, employees and other stakeholders. These tools provide a frame of reference for what factors are valued as important by the market, and often driven by their development by corporate peers and experts. They also provide organizations with a reference point for benchmarking progress. While the frameworks examined here represent some of the most developed thinking in this area, there is still a need for greater clarity and consensus on what, how, and why companies should be measuring and reporting data related to their workforce. As explored later, this is a dynamic environment that also includes new collaborations and even consolidation among frameworks.

80. "What is a Good Job?," Good Jobs Institute, https://goodjobsinstitute.org/what-is-a-good-job/.

81. Catherine Ward, Laura Roberts, and Carey O'Connor, Become an Impact Employer (Jobs for the Future: 2021), https://jfforg-prod-new.s3.amazonaws.com/media/documents/BecomeAnImpactEmployer_070921.vF.pdf.

82. "Grads of Life," https://gradsoflife.org/.

"BEST PRACTICE" EXAMPLES IN BUSINESS REPORTING ON HUMAN CAPITAL

The following section highlights qualitative examples of trends and best practices in human capital reporting that emerged from three different aspects of our research process: the recommendations of interviewed experts; the 2022 JUST Capital rankings and human capital disclosure assessment,[83] and recent research initiatives focused on human capital metrics and disclosure.[84]

Over the course of our interviews with approximately 30 experts on human capital and ESG, one dedicated question in the discussions focused on identifying "exemplars" leading the way in human capital reporting or the "S" in ESG. These recommendations led to a list of 19 firms for exploration of their publicly available ESG, impact, or CSR reports - which are often richer in detail than filings with the SEC.[85] These companies represented a wide range of industries and sizes, and our focus was on identifying the human capital-related themes and disclosures, and common threads across them. Although other research initiatives have cataloged what human capital data companies are reporting in their SEC filings, our look at sustainability and ESG reports for "exemplar" firms can be illuminating, and also provides qualitative details. Below, we summarize the common themes that emerged in this review, along with selected examples:

Compensation and benefits: Compensation and benefits offered by companies are often referenced as part of their ESG strategy. Companies endeavor to provide better compensation, remuneration, and benefits packages to address the needs of their workforce and retain talent. For their employees, companies such as Intel highlight a compensation model encompassing market-competitive pay, broad-based stock grants and bonuses, a stock purchase plan, healthcare and retirement benefits, paid time off and family leave, flexible work schedules, tuition reimbursement, sabbaticals, and on-site services (including banking, fitness classes, spas, nursing and prayer rooms, and more). In the case of JetBlue as a separate example, the firm highlights its 'no furlough' policy.

Learning and development, education assistance: Many companies today are more focused on strengthening the technical knowledge and digital skills of their employees. Additionally, companies highlight designated internal units that design these learning programs and career development platforms for the employees. Many companies are taking actionable steps to hire and retain the top talent for their organization aligned with their core philosophy and overarching

83. "2022 Overall Rankings," JUST Capital, https://justcapital.com/rankings/.

84. Ariel Babcock, Allen He, and Devin Weiss, "The New Landscape of Human Capital Metrics," Harvard Law School Forum on Corporate Governance, October 27, 2021, https://corpgov.law.harvard.edu/2021/10/27/the-new-landscape-of-human-capital-metrics/; Elizabeth Demers, Victor Xiaoqi Wang, and Kean Wu, "Corporate Human Capital Disclosures: Early Evidence from the SEC's Disclosure Mandate," Harvard Law School Forum on Corporate Governance, August 4, 2022, https://corpgov.law.harvard.edu/2022/08/04/corporate-human-capital-disclosures-early-evidence-from-the-secs-disclosure-mandate/.

85. List of companies in the research sample: Intel Inc, General Mills, Southwest Airlines, Salesforce, Target, Novartis, Adidas, Unilever, Walmart, GM, IBM, PwC, Costco, Caterpillar, JetBlue, Starbucks, Medtronic, Northrop Grumman, Bank of America.

goals. For example, through its academic support program, Bank of America offers employees up to $7,500 annually in upfront tuition assistance or reimbursements for job-related programs including MBAs, alongside a number of similar examples.

Safety in the workplace: As a part of their ESG strategy, companies have become more committed to supporting safety in the workplace. A growing number of firms embrace policies offering fair labor practices and safe working conditions throughout their value chain. Companies are increasingly taking steps to enhance the awareness of safe workplace practices among their employees. General Motor's SHIELD (Safety and Health in Everyday Leadership Discussions) model, for example, was implemented for use by senior leadership so that workplace safety concerns are identified and resolved more effectively.

Diversity, equity, and inclusion (DE&I): In order to foster DE&I, companies describe initiatives that are at the center of their ESG strategy. Several examples include: Target teamed up with historically Black colleges and universities (HBCUs) for a design challenge in 2021 to be showcased at Target's Black History Month. Northrop Grumman implemented DE&I initiatives supported by its senior leadership under the supervision of the Enterprise DE&I Leadership Council. GM aims to train, hire and advance 1 million Black Americans over a period of 10 years into family-sustaining employment. Novartis has pledged to improve pay equity and gender balanced processes. Starbucks has been a long-time ally to the LGBTQ community. In 2021, Starbucks received a 100% score on the Human Rights Campaign Corporate Equality Index.

Health and well-being, and resilience programs: Health and well-being are vital elements in the human capital component of ESG. A growing number of firms have launched innovative programs supporting the health and well-being of their workforce. Through "Total Health Champions," Caterpillar provides helpful online resources worldwide within its workplace by leveraging a global network of employee volunteers who share a common passion for health and well-being. Unilever has recently intensified efforts on mental health and introduced online training in multiple languages to mitigate the impact of mental health issues associated with the pandemic. Under the auspices of the 'My Well-Being' program, Northrop Grumman has formed the 'Well-Being Champion Network' aimed to improve worksite policies, reduce the risk of chronic diseases, and boost employee wellness. Unilever has created dedicated challenges to boost agility and resilience within the organization.

Parent and family support: Corporations are increasing support for employees and their families. General Mills offers leave benefits for all life stages, including up to two weeks of paid caregiver leave per year and 12 to 20 week paid parental leave for new parents. Intel provides robust services for families - including fertility and adoption assistance, parent reintegration support, childcare and eldercare support, and paid family leave for caring for seriously ill family members. Caterpillar for example offers an employee assistance program (EAP), which is a free, voluntary, confidential service for current employees and their qualified family members to meet various challenges at home and at work.

Engagement and volunteering: Firms are encouraging various engagement programs where their employees are entrusted with volunteering tasks for the common good. In Medtronic, employees may participate in Power Hours organized by the Medtronic Foundation to support social justice organizations such as Amnesty International, the American Civil Liberties Union, and many small local nonprofit organizations.

Technology and human capital: Companies are leveraging their technological platforms to improve the human capital component. They are including AI components to empower their ESG strategies on human capital. Some examples of activities impacted by AI are recruitment and onboarding, automation of administrative tasks, and internal mobility. This gained further momentum during the COVID-19 pandemic. Target, for example, regularly invests in modern technologies to enable the employees to craft their professional experience through flexible and personalized scheduling.

Since 2016, independent nonprofit JUST Capital has ranked publicly traded U.S. companies in terms of their stakeholder impact, including dimensions such as worker investment and community support - resulting in its "JUST 100" list of top performing companies. The annual ranking is based on input provided by subject matter experts in academia, business, and civil society. The top areas of issues identified by stakeholders at the end of 2021 were the following: workers (39%), communities (20%), shareholders and governance (19%), customers (11%), and environment (10%). More specifically, under the workers category, the most popular topics emerged in the experts' surveys were: living wage (15%), health and safety (7%), benefits and work-life balance (6%), and workforce training (4%). Examples of what types of human capital information companies are disclosing and the frameworks that they use is included in *Appendix A* at the end of this report.

In 2021, JUST Capital explored human capital reporting in-depth by analyzing the 100 largest U.S. employers' corporate filings, collecting data on 28 metrics organized in six key human capital themes: Employment and Labor Type, Job Stability, Wages, Compensation and Benefits, Workforce Diversity, Equity, and Inclusion, Occupational Health and Safety, and Training and Education.[86] This research highlighted three key findings. First, the amount of human capital data disclosed across categories and metrics is characterized as "unmistakably low. No company has at least one disclosure within each theme, and no company has disclosure on every single metric."[87] Second, most human capital metrics are disclosed in dedicated reports (72%), but not in the main body of 10-K Filings, which are subject to external auditing. Third, metrics with the highest disclosure rates, such as total values of salaries, benefits, pensions, and full-time vs part-time employee metrics, are disproportionately disclosed in Annual Reports (10-K Filings) that are submitted annually to the SEC. Interestingly, the metrics dedicated to minimum wage and lowest pay threshold are more likely to be found in the business press than in the company's reports.[88]

86. Emily Bonta, Catrina Notari, Alison Omens, Aleksandra Radeva, Ian Sanders, and Kavya Vaghul, The Current State of Human Capital Disclosure in Corporate America: Assessing What Data Large U.S. Employers Share (JUST Capital, 2021), https://just-capital.com/reports/the-current-state-of-human-capital-disclosure-in-corporate-america/.

87. Bonta et al., The Current State of Human Capital Disclosure in Corporate America.

88. Bonta et al., The Current State of Human Capital Disclosure in Corporate America.

According to a similar research exercise from FCLT Global, a nonprofit initiative of McKinsey & Company and CPP Investments, as companies are motivated to improve the materiality of their efforts reported in their periodical financial and nonfinancial reports, the disclosure rate of human capital metrics has overall increased from 2019 to 2021. This was especially the case in categories related to personnel turnover, leadership diversity, gender pay gap, employee health and safety, and employee training.[89] However, consistent with our analysis of ESG-related reports, these experts conclude that there is "tremendous cross-sectional variation in the amount, numerical intensity, tone, readability, and similarity of human capital disclosures."[90] It is clear that there is an opportunity to develop standards that can result in comparable information within and across industries.

89. Babcock, He, and Weiss, "The New Landscape of Human Capital Metrics."

90. Demers, Wang, and Wu, "Corporate Human Capital Disclosures."

Key Conclusions: Recommendations and Considerations for the Future

In the preceding analysis, we have reviewed the drivers and case for human capital measurement and reporting, and explored current reporting constructs, practices, and associated opportunities and challenges. In the discussion that follows, we present recommendations and considerations that result - with the goal of identifying opportunities for action as both human capital measurement and reporting, and the broader “S” within ESG mature.

1. Human capital measurement and reporting is still a very new topic, yet converging market forces are making it a key priority for companies and other players in the workforce ecosystem to urgently engage with. Driven by new regulations and ESG investment dynamics, this is becoming an important dimension of corporate talent strategy and financial reporting and compliance.

Human capital measurement and reporting is a still emerging but growing area of interest for companies and other stakeholders. Recent regulatory changes and investment trends create added urgency for defining this territory and highlight the need to elevate awareness of the issues, and for interested parties to come together to develop an agenda for future action. Within corporations, certain executives in the c-suite, within HR, or those responsible for ESG may have a general awareness of the coming need for human capital disclosures - but are likely unprepared to produce needed data. Companies will need to take a more integrated approach to strategy and measurement that ensures better collaboration across the HR, ESG, finance, and investor relations functions.

The broader business dialogue about ESG and human capital as an intangible asset is here to stay and represents a watershed moment in the evolution of business valuation and the expectations of corporations. The current version of conventional accounting standards (FASB) was validated in the early 1970s to support the content of corporate financial reports that were mainly rooted in the industrial economy of the time.[91] Over subsequent decades, and as mentioned earlier in this discussion, the major components of corporate evaluation in the modern dematerialized economy have shifted toward intangibles such as brands, innovation, and human and relational capital.[92] The more holistic view provided by ESG-related reporting unifies what were previously considered separate ecosystems with different goals: markets, environment, and society.

Despite the continued growth of ESG, it is not necessarily a concept that most managers or functions within a business have at the top of their priority list - and indeed, many might be unaware of forthcoming regulations and reporting requirements. Awareness of ESG appears to be especially low within HR, which is typically responsible for human capital strategy. “The HR function has not always been at the table in a strategic way for ESG and CSR,” offers Lane Jost, executive vice president for ESG Advisory at communications firm Edelman. “The HR people have always kind of been there for the community and philanthropy type activities of a company – but not as much a strategic partner on how the company needs to think about investing in talent from a skills standpoint and a retention standpoint. It’s so obvious but that is really important in the S dimension.”

Although many large firms have appointed executives responsible for ESG, their professional experiences and attention tend to be grounded in environmental sustainability issues, rather

91. “Accounting Standards,” Financial Accounting Foundation, https://accountingfoundation.org/page/PageContent?pageId=/overview-accounting-and-standards/accountingstandards.html.

92. Eric Hazan et al.,“Getting Tangible About Intangibles: The future of growth and productivity,” McKinsey Global Institute, June 16, 2021, https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/getting-tangible-about-intangibles-the-future-of-growth-and-productivity.

than human capital. In addition, human capital measurement is not on most business leaders' radar. Likewise, CFOs and investor relations executives are unlikely to have a strong sense of the company's human capital reporting capabilities given the nascency of the topic - and as a result, are not yet positioned to benefit from the positives associated with measurement, never mind meeting emerging compliance and reporting requirements. Thus, there is a need and opportunity to increase awareness of the emergence of human capital reporting - and to study the potential of human capital measurement to improve business performance. To date, this has been siloed within the people analytics community passionate about this topic. The new priority and visibility for human capital issues - within the corporation, and in the marketplace - presents an opportunity for HR leaders in particular, and an opportunity to rethink how companies organize human capital management and its links to financial performance.

"Companies that are taking a collaborative, engagement-based approach to ESG, and integrating this into corporate strategy - we're seeing them perform much better when it comes to overall company performance and value creation, compared to those just running ESG in a silo for compliance reasons," offers Steve Morgan, managing director and principal consultant of ESG Capital. In addition, IBM's VP and global head of corporate social responsibility and ESG, Justina Nixon-Saintil, suggests that leaders must "make sure down to every level of your organizational structure you have people thinking about what this means for them and the work that they do," noting that "there are so many people who are driving this work every day who actually have no idea what E, S, and G mean: we (in ESG) just assume that everyone is focused on this, so there's more awareness and training that needs to take place."

2. External reporting frameworks with common themes are emerging - but the reporting environment is complex to navigate and lacks agreement on the best ways for companies to measure and tell their human capital story. Key stakeholders in the field must come together to jointly develop priorities and standards and support corporate leaders in their engagement in this emerging area.

As highlighted earlier, existing human capital and ESG reporting frameworks do have many areas of agreement and overlap, particularly in terms of the most foundational categories. However, the sheer number of potential frameworks to consider and align with – well beyond the selected examples detailed in this text – creates a confusing environment, and a need for greater dialogue among companies, regulatory agencies, investors, and non-profit organizations operating in this space.

Our analysis of reporting frameworks, company impact reports, and other sources, alongside discussions with experts, led to consensus on the key human capital categories that companies should expect to measure and report, including with respect to forthcoming regulatory mandates. These areas include employee headcount and demographics, workforce costs, compensation and benefits, diversity, recruitment and turnover, skills and training, and health and safety. Our analysis revealed several challenges – and some opportunities – that companies may confront as they develop measurement and reporting strategies.

Employee headcount is often the first human capital metric included in major frameworks and repeatedly cited as a fundamental, baseline measure. At a minimum, firms should be able to describe the number of currently employed individuals, segmented by full-time, part-time, contingent, and independent workers. As simple as this may sound, Deborah Weiss, director of the Workforce Science Project at Northwestern University's Pritzker School of Law explains that "headcount is surprisingly hard to measure consistently," noting, for example, differences in the unit of tracking (e.g. single day headcount, average daily headcount, or average monthly headcount) can lead to significant variation, in turn producing inconsistencies in other related metrics like turnover. Ellen Frank-Miller of WORC observes, "often turnover can be very ill-defined - it can be hard to sort out bad turnover. If I get promoted, there's an open position – that's great. But if I'm doing a lousy job and get managed out, there's an open position – that's good turnover."

While basic diversity data is commonly suggested by frameworks, experts agree that more attention should be given to measuring equity and inclusion, acknowledging that there are not robust guidelines on exactly how to measure these concepts. Zeynep Ton of the Good Jobs Institute notes that reporting general diversity data can be misleading, "Yes, diversity is a great number...but when there are more people of color and more women who work in these low wage jobs [compared to] who is getting promoted or getting raises...we need more information on who gets to move up by race and gender." Reporting diversity data across other categories, such as internal promotion rate, can shed light into equity in an organization. Avathon Capital's Shoshana Vernick believes that, "diversity of thought and diversity of workforce composition gets to better business outcomes." Diversity is important and improving the type of metrics companies report can create value for firms."

Many companies with more than 100 employees - both private and public - are already required to file human capital-related reports with the Equal Employment Opportunity Commission (EEOC) describing employee job categories and details related to ethnicity and gender.[93] Experts expect that elements of the SEC's forthcoming guidance are likely to align with the types of metrics already included in major frameworks and in existing EEOC reporting. These new requirements are expected to be more prescriptive and universal, but presumably will continue to recognize that reporting can also be principles-based and subject to an assessment about materiality: to some extent it will be up to individual firms and sectors to determine the measures that are considered meaningful.

Harmonizing Frameworks and the Need for Greater Definition and Industry Standards

As IBM vice president for CSR and ESG Justina Nixon-Saintil states, "I do think at some point, there needs to be some consolidation or coming together of many of these agencies. They're asking for data but they're each asking it a different way. I think that's becoming burdensome on employers, and then as you move into some areas that are going to be regulated as well, that's going to change how many reporting agencies are requesting the same information – that will evolve and change." Nixon-Saintil's colleague Suzanne Klatt, IBM's director of ESG strategy and programs, agrees: "We're going to increasingly see convergence and we're already seeing it with some of these frameworks... I think regulation will probably increase the convergence as well."

In addition to coordination among major framework bodies, Mark Popovich of the Aspen Institute highlights the need for a more focused number of metrics, "They're all too complicated – they all have too many aspects, too many measures and metrics requirements – data is *not* free. A larger number of indicators complicates compliance and increases resistance to reporting. Particularly in the beginning of the green movement around the E, they sent these giant survey instruments to companies. So sure there's some benefit in meeting together as stakeholders and deciding we're only going ask for these 45 measures – but from my perspective you've already lost the game if you're talking about 45 measures."

Ultimately, there is no one standard that fits every organization's needs. In fact, it's not uncommon for companies to utilize several reporting standards in one public report. An evaluation of SEC filings found an increasing number of companies use at least two or more frameworks, many using a combination of standards from SASB, TCFD and others.[94] This echoes the sentiment that there is no singular standard that applies to every context, and further, many practitioners caution against creating *more* frameworks, and would prefer existing standards bodies focus on coordination and simplification. Organizations looking to increase reporting on human capital measures find that there is no universal human capital standard and ESG frameworks are seen as overly complex, covering a wide array of topics that scratch the surface of human capital.

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93. "EEO Data Collections," U.S. Equal Employment Opportunity Commission, https://www.eeoc.gov/data/eeo-data-collections#:~:text=The%20EEO%2D1%20Component%201,ethnicity%2C%20sex%20and%20job%20categories.

94. Maia Gez, Era Anagnosti, and Taylor Pullins, "ESG Disclosure Trends in SEC Filings," Harvard Law School Forum on Corporate Governance, July 16, 2022, https://corpgov.law.harvard.edu/2022/07/16/esg-disclosure-trends-in-sec-filings/#more-147596.

When companies use various reporting frameworks addressing human capital as a reference point, they should not try to satisfy the often-conflicting requirements. Instead, they should customize their HCM disclosures to the company's business and human capital strategies. In fact, as Michelle Prince explains, "The most important thing is not which framework to subscribe to... it's about making it compelling for your business, your strategy, and how you can really make a difference based on your sector or industry and where you are maturity-wise in your stage of evolution – whether small and growing, or huge with offices in 80 countries. There's likely never going to be a one-size-fits-all framework, and benchmarking yourself is important against other companies that are similar to you."

Unlocking the Potential of Benchmarking

As human capital measurement and reporting matures, a major benefit of more standardized and comparable data becoming publicly available is enabling benchmarking - for companies, investors, and other stakeholders. "Companies love benchmarking," notes Zeynep Ton of the Good Jobs Institute. "When we work with different companies every year, they love hearing about what others are doing, what others' metrics are. Benchmarking is a huge factor in the corporate world."

To date, the lack of disclosure and common standards has limited the possibilities of benchmarking. David Vance of the Center for Talent Reporting adds that many companies aren't yet moving on divulging certain human capital data because it isn't required, but that "Once the SEC says you have to do it, that sets everything in motion. Then, after a year, benchmarking will become available, and analysts will begin to demand it of organizations." With a level playing field driven by disclosure rules and regulations, the hesitation of being a "first-mover" in this area will be eliminated. As Deborah Weiss of Northwestern University observes, "As long as everyone has to disclose, the burden on every company is reduced, since everyone has to give away the same previously confidential information." She continues, "I think this is an example of where regulation is really going to help the good companies because they're happy to disclose and they understandably don't want to be put in the position of giving away a competitive advantage when it's voluntary." This sentiment is echoed by Yogesh Chauhan, director of ESG at HubSpot. "Whether it's regulation, industry-specific agreements, collaboration among companies, etc. – I think that if we're able to create an environment and culture of sharing data that helps compare apples with apples, and no company gets singled out because it's the only company that's reporting, that will be a game changer."

Companies can benefit by driving the development of standards - including in their industry sector - in collaboration with peers. Numerous collaborative efforts (such as the work of the Center for Talent Reporting, and the Workforce Science Project at Northwestern University, as just two examples) already exist today, and many more benchmarking initiatives driven by leading business groups are likely to develop as new types of data becomes publicly available.

Skills Acquisition and Job Quality

Meaningfully measuring skills acquisition is an important, and particularly challenging frontier. Deborah Weiss highlights the challenges here from a company level and external perspective: "Skills and training are super important – but they are difficult to measure. The HR data experts I talk to are almost unanimous that measuring training cost is not worthwhile... it's such an elastic concept, you can't do it meaningfully." Weiss continues, "A lot of interesting and important work is being done on measuring skills, but it's still at an early stage ... in terms of coming up with a metric that is meaningful for external disclosure and cross-company comparisons, we aren't that close." Some of the key human capital reporting frameworks do touch on raw measures of training

investment - e.g. hours per employee or total dollars - but existing frameworks and the broader marketplace are so far less focused on human capital development *outcomes* (e.g. employee mobility and productivity) at the individual level than in aggregate. This is challenging to measure but is seen by many to be the "holy grail" in human capital measurement, as McKinsey's Bryan Hancock asserts: "what additions have been made to the skills of someone over the course of a career?" According to Hancock, this type of measurement and ROI calculation can be enabled by "some form of an interoperable learning record or lifelong transcript – something that really is able to track the skills that somebody has, and the skills that they acquire over the course of time in a role."

Human capital reporting also has the opportunity to integrate job quality measures. Deborah Weiss highlights work from the Metrics of Employment Quality Initiative (MEQI), which has developed metrics on a range of issues including economic opportunity, diversity, and quality of life. "We've almost completed testing the basic productivity and diversity metrics, but more testing and refining will be required before the more advanced metrics can be used to shed light on whether human capital practices meet advanced sustainability goals like economic opportunity, equity and inclusion, and quality of life." In general, frameworks do not explicitly measure job quality, but certain indicators suggest job quality will be increasingly important in reporting. For example, JUST Capital points out that "Asset managers like State Street, Vanguard, and BlackRock have all issued 2022 proxy voting guidelines that emphasize that they're looking at the materiality of good jobs."[95] In addition to utilizing human capital reporting frameworks, firms can consider the types of assessments created by organizations such as The Good Jobs Institute and Jobs for the Future.

Talent Mobility as an Especially Powerful Measure

Across our interviews with experts and review of the research literature, a consensus emerged that talent mobility - how an organization develops its people and where employees end up in their careers - is one of the most powerful human capital measures for organizations and other stakeholders to focus on. The Conference Board's definition of "total talent mobility," for example, entails "proactively moving employees into permanent or temporary new roles in an organization or across organizations or industries" - including all employees, rather than just high potentials.[96] Talent mobility is directly connected to the broader idea of economic mobility in society - how a worker's economic status improves over time. This idea extends beyond the growing market-driven expectation that companies provide "quality jobs," to how firms develop and advance their employees.

M.I.T. professor and co-founder of the Good Jobs Institute, Zeynep Ton makes the case that internal hire and promotion rates (e.g. what percentage of front-line managers are promoted from within rather than hired from outside) are an especially important metric to focus on. Likewise, Jeff Higgins of the Human Capital Management Institute views the internal promotion rate as his "favorite" metric for value-added, noting, "CEOs will say 'we really invest in our people, we're all about growing our own talent.' Well, if 70% of your talent above a certain level all comes from

95. Alison Owens, "2022 Is the Year to Finally Define, Align, and Drive Action on the 'S' of ESG," Just Capital, February 3, 2022, https://justcapital.com/news/great-resignation-puts-workers-in-esg-spotlight/.

96. Robin Erikson, Marion Devine, and Amy Ye. Total Talent Mobility: Strategic Purposes, Barriers, and Best Practices. (The Conference Board, April 29, 2019), https://www.conference-board.org/topics/talent-mobility/total-talent-mobility-executive-summary.

outside the company, then you're not really doing it. If that's part of your workforce strategy, you need to show that you're really doing it."

"From a corporate standpoint, there's a recognition of the role that employers play in opportunity creation – but it's hard to narrow in on a specific set of metrics that really refer to the 'employer value added' in terms of the human capital and someone's career" adds Bryan Hancock, a global leader of McKinsey's talent work. McKinsey's influential 2022 report, "Human Capital at Work" urged organizations to "embrace mobility," by creating both upward and lateral career paths that better attract talent, and also motivate key talent to stay.[97] This approach is framed as leadership accepting the reality that "talented people will move, and the key for employers is becoming a part of this flow," since 80% of role moves involve changing employers. Mark Popovich of the Aspen Institute notes that how a company develops its people is both material to the business, and is "probably the greatest impact in the world."

As executives and investors begin to treat human capital as an asset to be improved and managed rather than simply a cost to be minimized, there is the potential to break the cycle of accepting high turnover costs as a given within many companies' business models by focusing on talent mobility. This idea is explored in Harvard Business School's influential "Building from the Bottom Up" research report published in 2022. In this analysis, professors Joe Fuller and Manjari Raman highlight the challenges created by businesses underinvesting in employee development (especially for low-wage employees) and failing to measure or track outcomes. This ultimately results in becoming stuck in a cycle of hiring, onboarding, and training to keep up with churn.[98]

Zeynep Ton observes that many executives remain nervous about ramping up investment in human capital until investments in people are legitimized in the same way as investment in marketing, technology, or R&D. Yet, "this might be changing from the investor's perspective as they see how much understaffing is costing companies right now: they can attract people; they can keep their stores open and not lose sales," says Ton. "If they knew the turnover data, they could see how much that's costing them. We can see good things happening if investors have access to the data that are material to the performance of the business."

There is a strong business case for focusing on talent mobility even if it may be complicated to measure. According to the Institute for Corporate Productivity, high-performance organizations are two times more likely to prioritize talent mobility, more likely to plan the movement of talent within and across all operational areas, and 4.5 times more likely to clearly articulate the specific criteria for mobility.[99] From a human capital management perspective, using internal talent to fill open positions has other benefits: current employees have been through the performance management process and are less of a performance risk than new hires, and they also require less money to recruit and reduce onboarding time. In addition, it is worth noting that new research and public rankings related to economic opportunity - such as the "American Opportunity Index" - place

97. Anu Madgavkar et al., Human Capital at Work: The value of experience. (McKinsey Global Institute, June 2022), https://www.mckinsey.com/~/media/mckinsey/business%20functions/people%20and%20organizational%20performance/our%20insights/human%20capital%20at%20work%20the%20value%20of%20experience/mgi-human-capital-report-jun2022.pdf.

98. Joseph B. Fuller and Manjari Raman. Building From the Bottom Up. (Harvard Business School, January 2022), https://www.hbs.edu/managing-the-future-of-work/Documents/research/Building%20From%20The%20Bottom%20Up.pdf.

99. Jennifer Arlem Molina, "How High-Performance Organizations Move Talent", i4cp, May 18, 2016,. https://www.i4cp.com/productivity-blog/2016/04/29/infographic-4-talent-mobility-next-practices.

talent mobility at their center. Launched in October 2022 by the Burning Glass Institute, Harvard Business School's Project on Managing the Future of Work, and the Schultz Family Foundation, the American Opportunity Index publicly compares companies on dimensions such as early career development and career stability and advancement, based on millions of data points including longitudinal career profile information on individuals.[100] The attention that this new benchmarking effort has received from the media and corporations reflects both the power of the idea and the fact that employers will increasingly be evaluated publicly in terms of the opportunities they create for workers.

The Human Capital Story and Qualitative Narrative

In the context of new external reporting demands, companies must begin to prioritize their human capital story to the outside marketplace and investors. Yes, investors value quantitative data - but the organization's human capital narrative is equally important, and this came up often in our interviews with experts. The idea of communicating a clear human resources strategy and assessment along with financial information and other disclosures is at the heart of the concept of "integrated reporting."

"What's important is the integrated reporting story versus just metrics. Investors are always interested in metrics, raw numbers, because they can then turn their data scientists loose on them. But a bunch of numbers without understanding the context is meaningless," says David Creelman, head of Creelman Research. "We need to understand how your human capital strategy, and your marketing strategy, financial strategy – how it all pulls together to drive the company forward."

Similarly, in a reference to ESG and placing metrics in context, McKinsey's Bryan Hancock urges companies to "think through what their 'S' narrative is," using the example of metrics related to wages. He continues: "Say one thing that's measurable is a starting wage – some companies may anchor on paying at least $20/hour now. Some other companies may say that they start at (only) $15/hour, but take individuals who have been justice-impacted, or other individuals who have had difficulty getting a foothold in the labor market - and progress them to sustainable careers at $20/hour or beyond, but can't start them at $20." Hancock concludes, "My advice to a leader is don't be scared by any individual metric – hold yourself to the narrative to your stakeholders, internal and external."

In shaping their own human capital path, companies have an opportunity to demonstrate their values through qualitative information, the embrace of best practices, and voluntary evaluation models - alongside the importance of quantitative metrics. Consider an analogy from the environmental world, in the LEED (Leadership in Energy and Environmental Design) certification for green building. In most cases, LEED certification is voluntary - a way that building developers and anchor tenants can signal and evidence their commitment to a certain set of principles that might resonate with customers, clients, and partners. And in addition, over time, various government entities (e.g. the state of California) or project funders have chosen to require LEED certification.

100. "The American Opportunity Index," The American Opportunity Index, The Burning Glass Institute, Harvard Business School and the Schultz Family Foundation, https://www.americanopportunityindex.org/.

Similarly, some companies committed to sustainability choose to be certified as a "B-corporation" to signal a commitment to balancing "profit and purpose."[101]

We can imagine a similar situation in human capital measurement and reporting, with companies choosing to pursue various "seals of approval," certifications, or standards to demonstrate their commitment to certain people-related initiatives within their human capital strategy. These types of opportunities will grow as widely accepted measures become available, as new collectives of industry peers develop, and as new comparative tools become available.

However, notable developments in environmentally focused ESG reporting can provide lessons to consider with respect to human capital, and caution against over relying on qualitative descriptions and voluntary efforts. In the environmental arena, many stakeholders are increasingly sensitive to the possibility of "greenwashing," in which companies make inaccurate representations about the environmental soundness of their products or strategy. Several experts interviewed for this study shared the same concern with respect to companies making inaccurate assertions about human capital: it is hard to evaluate sustainability and impact claims without correct, comparable reporting standards. This is even more remarkable in the case of initiatives involving human resources, where the assessment cycle is more objective and focused at the stage of resource input and processes than on the actual outcome.

"Until human capital metrics are standardized, there's room for greenwashing. It's important to get the ball rolling by requiring some disclosure but understand it's a matter of years until we converge into consistent, reliable ways of doing it," says Deborah Weiss of Northwestern University. She adds, with an emphasis on what this means practically for companies' early efforts with human capital measurement and reporting today: "That's the #1 reason for keeping the list of required metrics tractable and small… let's start with the things where we have in sight the possibility of coming up with standardization. The #1 goal in terms of preventing greenwashing would be, don't overreach, start at a realistic scale."

101. Israel Tannenbaum and Brad Caruso, "The Balance of Profit and Purpose: How B-Corporations are Shaping the Future of Philanthropy," Withum, https://www.withum.com/resources/the-balance-of-profit-and-purpose-how-b-corporations-are-shaping-the-future-of-philanthropy/.

3. The current state of corporate technology systems and analytical capabilities within most organizations is a significant limitation in immediately moving human capital measurement and reporting forward. However, elevating awareness of this challenge and new investments in systems capabilities and data standards can catalyze progress.

Despite the emerging need for better human capital data, companies' lack of readiness to gather and report it was a major theme in our research and interviews with experts. The HR function - historically responsible for people-related data - is seen as lacking a strong analytical foundation, both in terms of acumen and infrastructure. This is a gap that has been previously acknowledged within the HR community, and the wider business world.[102] Mark Popovich, director of the Good Companies, Good Jobs Initiative at the Aspen Institute Economic Opportunities Program observes, "It's remarkable to me how little data companies have or consider in the c-suite on what's happening on their people side. They often rely on HR managers who are not close to the core operational focus of the business enterprise." A number of experts shared their experience that it can often be a challenge for companies to report basic metrics such as their total number of employees in a given time period, much less more complicated measures.

Beyond just a question of the HR function's readiness, the human capital data and reporting challenge is one that will require integration and coordination across corporate functions, as suggested earlier. Accessing and reporting better data will require a cultural shift, new investments, training, and executive action.

First, companies must determine if they have the appropriate systems and capabilities in place to reliably obtain key metrics, and recognize that meeting the need for *external* reporting must begin with internal reporting capabilities. Here, it is important for organizations to take an inventory of the current state of metrics reportable today, and create a roadmap to reach the desired state of metrics desired or required in the future. As Cat Ward of Jobs for the Future notes, "When we talk about just shining a light on what the numbers are, we need to first dig into what is even possible? What can you even capture? And that's the change management question – these systems are complicated." Similarly, Deborah Weiss, leader of Northwestern University's Workforce Science Project, emphasizes, "The people who really know the human resource data feel that the challenges involved in human capital measurement are being underestimated by a lot of other participants."

Many experts point out that although a number of the major providers of HR software (e.g. ERP and HRIS systems) are working on new reporting capabilities, many of the technology players aren't yet aligned with the impending demands of external reporting - which will also require more uniform and higher integrity data, similar to what is expected of financial information systems. Here, Northwestern's Deborah Weiss observes, "The HR vendor community is fantastic, a really smart group of people – but they haven't really been asked to provide advanced external metrics. If anything, there's been no demand for even the core external metrics that they're already ready

102. Bruce Marable, "Overcoming the Challenges of Understanding HR Data," SHRM, April 6, 2022, https://blog.shrm.org/blog/overcoming-the-challenges-of-understanding-hr-data; Cappelli, "There's No Such Thing as Big Data in HR."

to produce, like ISO 30414. I think they'll rise to the challenge as long as there's an interest in what they can do." Consultant Michelle Prince highlights the need for more consistent data across finance and HR, which will be paramount as human capital data is reportedly publicly: "HR data in my experience has always been different from finance's data. The two rarely align – and people are looking at financial performance and financial data, and they're going to look to HR for turnover data, headcount, etc. In my personal experience of years working with Fortune 500 companies, the reason why data from finance and HR do not reconcile is they're different data sources that are pulled very differently, and tracked very differently, and usually for different purposes."

It is also worth noting that small-and-medium businesses (SMBs) lack resources and face greater challenges when it comes to HR technology systems - and this can be an issue that inhibits beneficial internal human capital measurement, as well as external reporting in the cases where agencies and groups outside of the SEC begin to request human capital metrics in the future. "In our research, primarily with SMBs – it really doesn't matter what the size of the organization is, in terms of their ability to access data currently with regard to their workforce," says Ellen Frank-Miller, founder of WORC. "HRIS systems are a complicated situation for large companies, and it's an under-resourced area for small companies." The emergence of external reporting mandates can be a catalyst to prepare these processes and systems.

With the elevation of human capital issues to the executive leadership level, a clearer case is emerging for investment in people analytics as an area of potential corporate competitive advantage. McKinsey & Company suggests that people analytics can drive business value and result in a 25% rise in business productivity and 50% decrease in attrition rates.[103] McKinsey also points to a needed shift in team capabilities and organizational mindset - in addition to better infrastructure and "good" data - in the progression from basic reporting to more advanced and predictive analytics.[104] Likewise, Boston Consulting Group (BCG) highlights the growing demand for data skills in HR roles and the need for upskilling within the function.[105] "The ultimate implication is that HR can be seen as providing data to help executives make decisions," adds Scott Weersing, vice president and senior impact analyst at Truist. "HR has always been the group that implements HR policy, deals with HR problems – but HR can provide data on interventions that improve the employee experience, and help the organization achieve its goals."

Jeff Higgins of the Human Capital Management Institute (HCMI) - himself a former CFO, observes how leaning into analytics and reporting can be a win for HR leaders and the development of the HR discipline. "Top management is pounding the table for data and analytics – but often legacy HR leaders just don't want to do it and are deer in the headlights with this stuff, they didn't go into HR to do numbers and reporting," Higgins observes. He adds: "I've seen firsthand that doing the best thing for you people usually has the best ROI – but if you measure it, you improve it, and HR's job will get easier, and HR will be heroes."

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103. McKinsey & Company, "People Analytics," https://www.mckinsey.com/solutions/orgsolutions/overview/people-analytics.

104. Elizabeth Ledet, Keith McNulty, Daniel Morales, and Marissa Shandell, "How To Be Great at People Analytics," McKinsey & Company, October 2, 2020, https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/how-to-be-great-at-people-analytics.

105. Matt Sigelman, Bledi Taska, Layla O'Kane, Julia Nitschke, Rainer Strack, Jens Baier, Frank Breitling, and Ádám Kotsis, Shifting Skills, Moving Targets, and Remaking the Workforce (The Burning Glass Institute, BCG, and EMSI Burning Glass, May 2022), https://web-assets.bcg.com/c1/c0/649ce92247c48f4efdbf9e38797a/bcg-shifting-skills-moving-targets-and-remaking-the-workforce-may-2022.pdf.

Finally, data quality and integrity is an issue in the broader ESG domain. According to a 2022 global ESG reporting survey by finance software company Workiva, 72% of ESG executives lack confidence in their own data today (and a majority began formal reporting within just the last three years).[106] Investors are seeking better "investment-grade" data in ESG disclosures - and this data will increasingly be subject to analysis by algorithms and AI.[107] Given the nascent nature of human capital reporting relative to climate disclosures, the basic data challenge is likely to remain for many years to come, and should be a top corporate priority as investor decisions and regulatory compliance hinge on these metrics.

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106. "2022 ESG Reporting Survey: Five Global Insights," Workiva, https://www.workiva.com/sites/workiva/files/pdfs/esg_reporting_survey_infographic-en.pdf.

107. Benchmark ESG, 2021 Benchmark ESG Survey: Investor Attitudes on Company ESG Data (Benchmark ESG, February 2022), https://www.benchmarkdigitalesg.com/wp-content/uploads/2022/03/2021-Benchmark-ESG-Survey-Investor-Attitudes-on-Company-ESG-Data2.pdf.

Conclusion: A Call to Action and Opportunity for Leadership

A CALL TO ACTION AND OPPORTUNITY FOR LEADERSHIP

The goal of the preceding analysis was to delineate recommendations and considerations for stakeholders interested in human capital measurement and reporting, based on the results of our research. Our hope is that the analysis of this broad territory can drive future dialogue and action. Market forces are dictating that companies should dedicate more investment and strategic attention to their workforce, and because of regulatory mandates and other incentives, prepare to externally disclose more people-related data - beginning with the basics but eventually focusing more on worker outcomes. There is an urgent need for a wide range of interested stakeholders to come together to build awareness of the need for more and better human capital management and reporting, and to begin collectively defining more detailed standards and support the development of the needed technology infrastructure.

The idea that human capital should be given more attention as an intangible asset has been around for many years. Today, however, this concept is at a key inflection point as market pressures and regulatory mandates stoke interest in and commitment to the topic. Yet even with this growing attention, the dialogue surrounding human capital measurement and reporting is still nascent - which creates an opportunity for the collective exploration and definition of best practice, and for companies to choose to lead in their actions and reporting. One of the most surprising and consistent findings in our interviews with experts was how few U.S.-based firms individuals could point to as true exemplars in human capital disclosures.

David Vance, executive director of the Center for Talent Reporting, brings together a number of themes in framing the demands for more human capital measurement and reporting in the following terms: “With all these factors coming together, I’m very confident that by 2030, we’ll have robust reporting by all of the publicly traded companies in the U.S. – and more than that, even if there is a recession and demand for talent falls a bit, it will return.” Vance continues: “This war for talent will continue – and why in the future would someone go to work for an organization that won’t share their human capital metrics? The only reason an organization several years from now isn’t sharing their human capital metrics publicly (for example, their diversity of employees, employee engagement rate, etc.) is they’re bad.” He adds: “Likewise if I’m an investor, why would I keep investing in a company that won’t share their human capital data? I’d have to assume they have a bad story to tell. So why would I direct my own money there or my client’s money?” Similarly, Allen White, co-founder of the GRI, powerfully notes: “We are in a moment where ESG investing is very seriously on the uptick, and where multiple crises are shining new light on corporate behavior and practices. The convergence of ecological, social and economic crises, and mandatory reporting alongside the confluence of reporting standards tells me that the future is bright. We cannot afford to return to the days of opacity in business. Neither investors–nor the planet at-large–cannot and should not tolerate such a situation.”

Appendices

APPENDIX A: HUMAN CAPITAL REPORTING EXAMPLES FOR SELECTED FIRMS

The brief examples highlighted below convey what types of human capital information is disclosed and discussed in certain firms ESG/sustainability reports: these organizations were mentioned during the interview process and also appeared in the 2022 ranking provided by JUST Capital in its "Workers" category.[108] This sample provides real-world examples of firms' human capital data disclosure and discussion, along with a note on what frameworks (often ESG generally) were referenced in their reporting. These summaries also provide a brief sense of what firms have chosen to highlight as part of their human capital narrative to investors and other stakeholders.

Alphabet Inc (Internet) | Global Employees: 110,600 | ESG Frameworks: SASB and TCFD
Alphabet discloses information in the following categories: Safety, intersectional demographics data about its U.S. workforce organized by gender, race, ethnicity, and job levels. ESG data also includes pay equity analysis and goals to improve the representation of Black employees in senior positions by 2025. Alphabet has also published the EEO-1 Report. https://abc.xyz/investor/other/sustainability-and-related-information/

Bank of America Corporation (Banks) | Global Employees: 212,505 | ESG Frameworks: SASB; GRI; TCFD; UNCD; WEF-SCM
The focus of Bank of America on people is mainly oriented toward the following metrics: training initiatives, DEI; employees benefits and health; diversity of governance bodies and employees; ratio of basic salary of women and men; and parental leave. In the recent past, Bank of America has added alignment of various performance metrics to the UNDG and the stakeholder capitalism metrics (WEF). https://about.bankofamerica.com/content/dam/about/pdfs/ESG_GHI_2021_508_secured.pdf

Caterpillar (Commercial Vehicles & Machinery) | Global Employees: 107,700 | ESG Frameworks: SASB, GRI
Caterpillar's focus in its sustainability report is primarily focused on employee health and safety; talent development and training; health and well-being; and DE&I and the overall employee experience. Caterpillar has adopted the GRI framework to widely report on human right assessment. The strategic vision of the company is focused on profitable growth built around four pillars: operational excellence; services; expanding offerings; and sustainability. https://s7d2.scene7.com/is/content/Caterpillar/CM20220511-3628c-87ee2

108. See JUST Capital Ranking for the specific category of ESG metrics related to the area defined as workers: https://justcapital.com/rankings/

General Motors (Automobiles & Parts) | Global Employees: 155,000 | ESG Frameworks: GRI, SASB and TCFD

GM opens its sustainability report listing the strategic priorities for the company. With reference to human capital, the focus is on keeping people safe, developing talent & diverse people, and upholding human rights. The code of conduct of the company is focused on integrity and other values that GM is placing as requirements for its work environment: examples are mutual respect, trust and accountability. With regard to corporate governance, the company reports metrics on the diversity of the board. https://www.gmsustainability.com/

IBM (Computer Services) | Global Employees: 345,900 | ESG Frameworks: GRI

IBM's sustainability report is built on three pillars: environmental, equitable, and ethical impact. The report provides detailed metrics on representation and hiring trends. The same sustainability report provides a synthesis of the EEO-1 report. This document explains the salary distribution by demographics and job levels. Interestingly, the environmental section of the sustainability report comes at the end of the report, while this section usually opens the integrated performance report of a company. https://www.ibm.com/impact

Intel Corp (Semiconductor & Equipment) | Global Employees: 110,600 | ESG Frameworks: SASB and TCFD

Intel's report details human capital information organized in the following categories: Inclusion; compensation and benefits; growth and development; health, safety and wellness. This company, in its leadership position in the semiconductors & equipment industry, distinguishes itself for the disclosure of pay gap analysis results. As of 2022, it is one of the few companies to release Component 2 of the EEO-1 Report. https://www.intel.com/content/dam/www/central-libraries/us/en/documents/2022-05/2019-2021-eeo-1-pay-disclosure-report.pdf. • https://www.eeoc.gov/data/eeo-1-data-collection. https://csrreportbuilder.intel.com/pdfbuilder/pdfs/CSR-2021-22-Full-Report.pdf

Northrop Grumman (Aerospace & Defense), Global Employees: 97,000 ESG Frameworks: SASB, GRI

Northrop Grumman's report focuses on ethics communications, human rights, labor relations, people and culture, safety, DEI and employee resource groups (ERGs). A relevant section of the sustainability report is dedicated to talent and employee development. https://www.northropgrumman.com/wp-content/uploads/2021-NG-Sustainability-Report_Final.pdf

Salesforce.com Inc (Software) | Global Employees: 49,000 | ESG Frameworks: SASB; TCFD; GRI; UNCD; WEF-SCM.

Salesforce's report focuses on benefits, work-life balance, and DEI-related metrics. This company is notable for robust disclosures on the following measurements: racial equality and justice; equal pay; and demographic indicators. https://stakeholderimpactreport.salesforce.com/pdf/FY22-SIR.pdf

Walmart Inc (Retail) | Global Employees: 2,300,000 | ESG Frameworks: SASB; TCFD; GRI; UNCD; CDP (environmental disclosure).

Walmart's human capital ESG information is disclosed through a longitudinal analysis (3 years) on the following key metrics: employee growth, inclusion, well-being, number of technology-empowered roles (digital metric). From the broader social perspective, Walmart focuses on several reporting areas: equity & inclusion, people in supply chains, safety, serving communities, and human rights. https://corporate.walmart.com/esgreport2021/esg-issues

APPENDIX B: ACKNOWLEDGEMENTS

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