

HR metrics for investors: the coming ANSI standard

BY DAVID CREELMAN AND ANDREW LAMBERT (2011)

Board oversight of human capital is a slowly rising imperative. Driving this tide is a knowledge economy where talent and culture are as important as strategy and capital. Over the past two decades, a variety of institutions have been working to make sense of human capital intangibles. As these initiatives progress, board neglect of human capital will cease to be seen as benign.

One “under the radar” project boards should know about is the development of an ANSI standard on which human resources metrics can be reported to investors. The standard, currently being developed by a Society for Human Resource Management taskforce, will likely be released for public consultation early in 2012.

As described in our article *The Long Road to Reporting on Human Capital* (Creelman Wurzburg 2011), there is no magic formula for measuring human capital waiting to be found by some smart analyst. The ANSI standard is unlikely to contain anything shockingly new; rather it will prescribe familiar HR metrics with a proven link to business outcomes. What matters is not novelty, but the practical and moral force of a reasonable standard. Once the standard is in place, organizations that do not report these HR metrics can rightly be challenged by investors.

Had the standard been proposed a decade ago it would have fallen on deaf ears. Compliance will be voluntary, so why should boards pay attention? The reason the standard will matter is that it arises not out of the blue, but out of a growing global awareness that we need to improve non-financial reporting. For example, the European Accounts Modernisation Directive requires large organizations to provide relevant non-financial performance indicators. In Germany, over 1,000 organizations have already produced a *Wissensbilanz*—a report explaining how intellectual capital drives success. Thanks to a push from its Ministry of Economy, Trade and Industry, Japan has made similar progress on non-financial reporting. This push for better reporting on, and better oversight of, human capital is part of a series of initiatives that have been under way for more than a decade.

What will an ANSI standard on HR investor metrics add to the equation? The standard will be small potatoes compared to the sophistication of the intellectual capital reports found in Germany, but it is actually the small-potatoes aspect of the standard that differentiates it from the hearty meal of a *Wissensbilanz*. The ANSI standard will be easy to adopt on a wide scale and that, if all goes well, will produce the breadth of information investors crave.

What should boards and HR leaders do? As we have emphasized, we are dealing with a tide not a tsunami. And to run with the disaster metaphors, we are not dealing with an earthquake like Sarbanes-Oxley. What boards need to do is simply raise their game in taking a more serious and better structured look at human capital. HR has to lead this effort, as our study *The Board and HR* showed, there is a shortage of human capital expertise on boards and almost all the companies that do a great job on human capital oversight do so because HR took the initiative in delivering useful insights to the board. A little attention to the issue on HR's part could raise the game before the next board meeting.

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