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# SEC and Human Capital Management Reporting: What It Means for You and Your Firm

by Michael Hruska

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## Landscape for Change

The challenge for the modern organization is to attract, retain, and maximize the potential of their people. These key efforts are paramount to creating, and maintaining, vibrant future organizations.

Thirty-five years ago, before the domination of Silicon Valley across America, physical assets made up nearly half of the stock market's value. The financial crisis of 2008 launched an accelerated shift from tangible (or physical products) to intangible products including algorithms, brands, and lists<sup>1</sup>. For more than a decade, this acceleration has continued with companies creating value with technology solutions using human capital. The difference between companies providing similar value in the marketplace just may be how they attract and grow their people.

We live in a world continually fueled by data. In 2018, more than 2.5 quintillion bytes of data were created every day. Today, there are 40 times more bytes than observable stars in the universe.

Some questions we might consider:

- Could we use this data to continually optimize the growth of people in organizations?
- How can we get our organization to buy into this AND invest in better analytics?

While big data is well understood as beneficial to contemporary organizations, there may be an additional incentive just released from the Securities and Exchange Commission (SEC). In fact, the SEC is looking at specific data points regarding human capital management from a disclosure standpoint to further public data about company performance in this area.

## New Rules

Last year, the SEC published a proposed rule on human capital reporting as part of the Modernization of Regulation S-K Items 101, 103, and 105. As recently as August 25, 2020, Regulation S-K, which focuses on a company's non-financial reporting requirements, was finalized<sup>2</sup>. The rule officially went into effect 30 days later – September 2020.

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<sup>1</sup> <https://www.bloomberg.com/news/articles/2020-10-21/epic-s-p-500-rally-is-powered-by-assets-you-can-t-see-or-touch>

<sup>2</sup> <https://www.sec.gov/news/press-release/2020-192>

A key here is replacing the current requirement, to disclose the number of persons employed by the registrant, with this expanded requirement:

*“...to provide a description of the registrant’s human capital resources, including in such description any human capital measures or objectives that management focuses on in managing the business, to the extent such disclosures would be material to an understanding of the registrant’s business taken as a whole.”*

Specific items that are minimum recommendations to report include employee attraction, development, and retention. From an overall perspective for investors, the SEC states the following:

*“Under the final amendments, Item 101(c)<sup>3</sup> will require to the extent such disclosure is material to an understanding of the registrant’s business taken as a whole, a description of a registrant’s human capital resources, including any human capital measures or objectives that the registrant focuses on in managing the business. We believe that, in many cases, human capital disclosure is important information for investors. Human capital is a material resource for many companies and often is a focus of management, in varying ways, and an important driver of performance.”*

As people are a critical asset to company performance, this rule forms a basis for companies to share their human capital data as another point of overall evaluation. While this is a great opportunity, the SEC has not chosen to provide a specific framework or to recommend a standards-based approach that would allow for comparability:

*“We emphasize that these are examples of potentially relevant subjects, not mandates. Each registrant’s disclosure must be tailored to its unique business, workforce, and facts and circumstances.”*

Instead, the final rule pushes a principle-based approach:

*“...a principles-based approach affords registrants the flexibility to tailor their disclosures to their unique circumstances, including by providing disclosure in accordance with some or all of the components of any current or future standard or framework that facilitates human capital resource disclosure that is material to an understanding of the registrant’s business taken as a whole.”*

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<sup>3</sup> <https://www.sec.gov/rules/final/2020/33-10825.pdf>

## Future Implications

This ruling sets the stage for two important considerations:

1. Public companies now are required to disclose human capital data as they see fit for their unique business.
2. Investors may be positioned to use this data to evaluate investments with new information that may differentiate companies in similar spaces via human capital data reporting and evidence of continuous improvement.

From an adoption perspective, we are likely to see two types of behaviors exhibited from companies:

1. Companies that seek minimum compliance to meet the requirement
2. Companies that embrace the idea of their human capital metrics as a strategic differentiator and that seek capabilities beyond a compliance standpoint

This requirement doesn't necessarily produce comparability, as the exact reporting is flexible and may be interpreted on a per company basis. However, companies that embrace this opportunity and report with a differentiator mindset may be at an advantage – giving them a potentially strong position to celebrate the key metric and movement of those metrics.

Further, organizations that disclose metrics, such as employee engagement, will likely be sharing more. With either positive or mitigating factors, these other disclosures may include information on initiatives that may be driving the disclosed metric with some directionality.

## What Does It Mean for Organizations?

Given interpretation, there may be a range of different approaches that emerge. However, this is an opportunity for organizations to become more deliberate about defining, measuring, and aligning initiatives for improvement of metrics. These metrics may be key indicators for employees, the organization itself, and the investment community.

## What Does It Mean for Investors?

With this newly announced change, companies will report on their human capital metrics and will provide further disclosures around what they are doing to impact them. This change will allow for deeper insights into an organization's ability to attract and retain talent, as well as to optimize performance. As more disclosures become available, it is possible that organizations will benchmark their competitor's metrics to potentially mimic or even differentiate themselves further.

## Is There a Standard?

Standards are always helpful in situations where potential variability reduces comparability. Over the last few years, the International Standards Organization (ISO) has been driving efforts for standardization on reporting for human capital metrics. In 2018, ISO released ISO 30414, Human resource management – Guidelines for internal and external human capital reporting<sup>4</sup>. ISO 30414 sets forth 59 metrics with guidance for internal and external reporting.

Example metrics from ISO 30414 that may be considered for disclosure include: cost per hire, leadership trust, human capital ROI, quality per hire, and percentage of employees who participated in formalized training in different categories. The standard was developed by ISO technical committee ISO/TC 260, Human resource management, and is comprised of HR and talent management experts. This standard can serve as a basis for the potential metrics that may be reported for investor consideration, in order to evaluate what is disclosed, versus what is recommended. For organizations required to disclose, the standard provides a basis for considering those factors that might be disclosed.

While ISO 30414 provides a range of disclosable metrics that may guide organizational decisions on relevant metrics for them, there is additional work for organizations to understand their current state of data. Further, it is necessary to understand what can be measured, how it is measured, and at what frequency it is measured and reported internally and externally.

## What Does This All Means?

The bright age of data about human capital, the most important “machine” in an organization, is moving closer. Disclosures of human capital data will be a mark of organizational efficiency and the effective use of human resources. These data have the ability to provide an improved human management landscape for organizations and can guide continual improvement and evolution. Equally important to outside parties, analysts, and the markets, these disclosures can provide an additional means for investor evaluation. While there is variability in the types of data that may be disclosed, organizations should make their best efforts to produce metrics that can be monitored and improved internally with more frequency while simultaneously sharing these metrics with the investment community.

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<sup>4</sup> <https://www.iso.org/news/ref2357.html>

## About the Author: Michael Hruska

Michael Hruska is a technologist and design thinking (DT) practitioner with experiences spanning across standards, emerging technologies, learning, and science. He is a former researcher at the National Institute of Standards and Technology (NIST). A believer in Ben Franklin's quote, "energy and persistence conquer all things," Mike's focus is on accelerating potential everywhere.



In his current position with Allen Interactions, Inc. he provides technology, business model, and innovation solutions to Fortune 500, government and startups. Michael researches, strategizes, designs, and makes advanced technology solutions and products. Along with his team, he has built award winning products and delivered solutions that support millions of users and billions of hits of daily web traffic. Michael's experience spans the continuum between advanced research on adaptive learning ecosystems and emerging technology solution/product design in a variety of industries.

Topics for which Michael has instructed include design thinking, learning transformation, product design, innovation, change, and transformation. These programs are delivered in a live format, either ILT or VILT, and average 1 hour to 1.5 days duration.

Michael is a member of the e-Learning Guild, the Association for Training and Development (ATD), the Society for Applied Learning Technologies (SALT), and the National Defense and Industrial Association (NDIA), and regularly presents at industry events internationally.



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