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Voluntary standardized human capital reporting has been on the table for several years. With the recent ISO approval, it's about to become reality.

BY LAURIE BASSI AND DAN McMURRER

In November the first-ever ISO standard for human capital reporting was passed. Officially titled the "Human Resource Management — Guidelines for Internal and External Human Capital Reporting," it was scheduled for publication Dec. 18.

Some background: ISO is the International Organization for Standardization. It is a worldwide federation of national standards bodies — the ISO member bodies.

The member body for the United States in the ISO is ANSI — the American National Standards Institute. The work of preparing international standards is normally carried out through ISO Technical Committees. In this case, the work was done by Technical Committee 260.

In 2011-12, there was an ANSI effort to create a human capital reporting standard for the United States. Those of us involved in the early ANSI work were disappointed when it failed to progress; we had hoped that an ANSI standard would eventually lead to an ISO standard. Although the ANSI effort was ultimately tabled, a subsequent ISO group formed to tackle the issue, resulting in the standard that was finalized Nov. 22.

Having an ISO standard is a much bigger deal than merely having an ANSI standard. Here's what Jac Fitz-enz, who is often referred to as the Grandfather of HR Analytics, has to say about standardization: "An ethical code, a body of research, specialized education and performance standards are the basis of a profession. The adoption of ISO standards supports human resources' claim to be a profession. It's been a long, difficult journey from the founding of the American Society for Personnel Administration by 28 far-sighted people in 1948, but now the goal is within reach."

Why Standardization?

We're willing to guess that HR professionals are asking some variant of one or more of the following:

- I work in a small firm, nonprofit organization or government agency; how can this possibly be relevant to me?
- Can I just ignore this?
- Is this standard a threat to me (and/or my employer)?
- Is there some way that I (and/or my employer) can benefit from this new development?

In order to answer these concerns, let's first discuss some additional background that helps put this standard into context.

Why Has This Standard Emerged?

The fundamental source of value creation in advanced economies such as the United States has shifted from tangible assets to intangible assets. Tangible assets have a physical form — machinery, buildings, land and inventors — whereas intangible assets are nonphysical, such as patents, goodwill and brand recognition.

Financial services firm Ocean Tomo reported that in 1975, 83 percent of the market value of S&P 500 firms was accounted for as tangible assets, with the remaining 17 percent of assets attributable to intangible assets.

A mere 40 years later, this ratio had flipped: In 2015, only 16 percent of the market value of S&P 500 firms was accounted for as tangible assets and the remaining 84 percent was attributable to intangible assets.

Since human capital is the fundamental source of most intangible assets, there is a much greater need today for measuring, monitoring, tracking and understanding how well people are being managed and developed. A broad array of stakeholders — executives, investors and employees themselves — want to know more about the people side of the businesses with which they are involved.

In light of this, “Workforce reporting is rethinking how organizational value should be understood and evaluated,” said Stefanie Becker, HR project director, HR strategy and planning for SAP SE. Becker also convened the working group initiated by the German Mirror Committee in the ISO Technical Committee 260 and oversaw the drafting of the human capital standard.

“The new ISO standard about workforce reporting assists organizations to move toward a more data-driven decision-making process across all facets of workforce management,” Becker said. “By using it for the public reporting, organizations can also fulfill the requirements of investors and other stakeholders by offering more transparency on their most valuable resource, human capital.”

And, indeed, investors are beginning to demand more insights on the people side of business. For example, the Human Capital Management Coalition, which is led by the UAW Retiree Medical Benefits Trust and includes 26 influential institutional investors representing more than \$2.8 trillion in assets, “engages companies with the aim of understanding and improving how human capital management contributes to the creation of long-term shareholder value,” according to the coalition’s mission statement.

Cambria Allen, corporate governance director for the UAW Retiree Medical Benefits Trust, said, “The Human Capital Management Coalition filed its rulemaking petition with the U.S. Securities and Exchange Commission in 2017. We presented the investor case for more effective disclosure of human capital information from our portfolio companies and urged a multistakeholder effort to develop reporting standards that would provide shareholders critical access to relevant and reliable quantitative and qualitative data.”



Stefanie Becker



Cambria Allen

“This data will allow us to better understand and assess how well portfolio companies are managing their talent,” Allen said. “The work of the ISO represents an important contribution to this dialogue.”

In short, if there was doubt previously about demands in the investor community for reporting on the people side of the business, it is now clear investors view such information as central to their work. The time has more than come for a standard for reporting on the people side of the business.

Overview of the Standard

Before getting into the details of the standard, a high-level view reveals some key facts that inform answers to the previous list of questions. First and foremost, the standard is about guidelines. There is nothing mandatory or compulsory about it, so there’s no need for anyone to get up in arms about it.

Second, the standard provides guidelines for both internal and external reporting and for large and small businesses, so there is something here for everyone. Some components are more appropriate for internal reporting or more relevant only to larger businesses.

Third, it represents the culmination of a tremendous amount of effort by a large and well-informed group of HR leaders from a wide range of backgrounds. There is a lot of wisdom, free advice and counsel built into it.

And fourth, the standard is very broad. So there may be parts of it that seem irrelevant for your organization. Our advice is not to be tempted to throw out the baby with the bathwater. Use what you can and what will be most valuable for your organization.

The standard provides guidelines on the following core human capital reporting areas:

- 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.

Lee Webster, who served as the secretariat of the ISO Technical Committee 260 that created the standard, said, “This document is a first step. It will evolve, and additional definitions and formula will be added in future versions. We’re only at the 50-yard line. There’s still lots more work to do.”

What the Standard Suggests for Internal and External Reporting

The standard is a 44-page document that contains lots of narratives, definitions and background discussion. Most useful for beginning to understand what it’s all about is Table 2 of the standard, which provides a summary of the recommendations for both internal and external reporting for both small and large organizations. The table on this page summarizes the standards’ recommendations for external reporting.

What This Means to Your Organization

The demands for better management, accountability and transparency with regard to human capital will only continue to grow in the coming years. This is the inevitable result of the increasing role that human capital plays in the creation of economic value. Within that context, the standardization of human capital measurement and reporting is a natural development.

This is good news, we believe, for those HR professionals and employers who have a good story to tell. But there is no getting around that this is not a happy development for some: those who would prefer to be able to keep stakeholders in the dark regarding their “people track record.” So this is not a universally positive development for everyone. But it is certainly one that will benefit the “good guys.”

Our advice is to give the new ISO Standard careful consideration. There may be components of it that are not relevant to your organization (at least currently). But it is also the breadth of the standard that ensures there is something for every type of organization, including yours. *wf*

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Human Capital Reporting Guidelines For External Stakeholders (From ISO Standard on Human Resource Management)

Human capital areas	External reporting	
	Large organizations	Small and medium organizations
Compliance and ethics	Number and type of grievance filed	x
	Number and type of concluded disciplinary action	x
	Percentage of employees who have completed training on compliance and ethics	x
Costs	Total workforce costs	x
	Workforce diversity with respect to	
Diversity	a) age	x
	b) gender	x
	c) disability	x
	d) other indicators of diversity	x
Leadership	Diversity of leadership team	x
	Leadership trust	x
Organizational health, safety and well-being	Lost time for injury	x
	Number of occupational accidents	x
	Number of people killed during work	x
Productivity	EBIT/revenue/turnover/profit per employee	x
	Human capital ROI	x
Recruitment turnover and mobility	Average length	
	a) time to fill vacant positions	x
	b) time to fill vacant critical business positions	x
	Percentage of positions filled internally	x
	Percentage of critical business positions filled internally	x
Skills and capabilities	Turnover rate	x
	Total developing and training costs	x
Workforce availability	Number of employees	x
	Full-time equivalents	x

Source: ISO Technical Committee 260