May 18, 2012

Mr. Lee Webster
Director, HR Standards
HR Standards Secretariat
Society for Human Resource Management (SHRM)
1800 Duke Street
Alexandria, VA 22314

RE: HR Policy Association Comments to the HR Standards Secretariat of the Society for Human Resource Management (SHRM) in Response to Investor Metrics Draft American National Standard (ANSI-SHRM-02001.201X dated April 9, 2012)

Dear Mr. Webster:

HR Policy Association represents the Chief Human Resource Officers of more than 335 large employers, with more than 20 million employees globally and over $7 trillion in annual revenues. Most HR Policy member companies are publicly held corporations, which the proposal says are "the main target for this standard."

For most of our member companies, the Chief Human Resource Officer (CHRO) is part of the senior management team and works closely with the Chief Executive Officer, Chief Financial Officer, Corporate Secretary, and the head of investor relations in dealing with financial markets and preparing the countless financial filings that companies, particularly publicly held companies, must make. The views on the SHRM proposal expressed below, therefore, represent not just the perspectives of CHROs, but also the consensus among these senior corporate officers.

In recent years, there has been a significant expansion in the number of regulations governing public companies that has led to a vast array of new data and financials, including HR-related financials, which must be disclosed via public filings. To provide examples of just two, the senior management team is already required to prepare a Management Discussion & Analysis (MD&A) as part of the annual 10-K filing and quarterly 10-Q filings. The MD&A is meant to provide the information necessary to understand the company's financial condition and overall operations. In addition, companies are currently required on an annual basis to prepare a Compensation Discussion & Analysis (CD&A) as part of their corporate proxy statement. This disclosure, which is particularly the focus of the CHRO, is meant to provide a comprehensive and detailed explanation of the material elements of a company's executive compensation programs and a thorough analysis of the company's policies and decisions regarding compensation of executives.

In the context of this growing and costly regulatory burden, the members of our Association were taken aback that the Society of Human Resource Management would propose yet another significant new regulatory burden —a Human Capital Discussion & Analysis (HD&A)— that would require human resource executives to disclose a large body of internal HR-related metrics to the public. In reviewing this proposal with our members, the common refrain we heard was, "Why would SHRM propose such a standard? Do they understand the reporting and administrative burdens publicly held companies already bear and the huge amount of information already available to the investment community?"

To summarize our comments, publicly held companies are overwhelmed by financial market and accounting compliance requirements. Likewise, the investment community is flooded with the financial information generated to meet these requirements. In our members' ongoing interaction with the investment community, few if any have ever heard requests for the kind of information that SHRM wants publicly held companies to disclose. While the information might be of interest to certain segments of the investor community, the cost of developing this data would far outweigh its benefits. Moreover, the information produced by these metrics would not be comparable from one company to another, thereby undermining its value to investors. Nor is it clear how the metrics proposed in this standard would provide information that would be important to a reasonable investor in making an investment decision (*i.e.*, would be "material"). Further, companies disclosing the information proposed in the standard could be placed at a considerable competitive disadvantage relative to organizations seeking to raid their talent; competitors trying to gain insights into how they are organized, staffed and structured; and hedge funds and other entities seeking financial prey. Our members support the use of targeted and useful internal HR metrics, but they strongly object to the prospect of having their confidential and proprietary HR information being put on public display.

In addition, what our members found most objectionable was how self-serving several of the proposed metrics requirements are. Many of the requirements in the standard appear to be written primarily for the benefit of consulting organizations selling HR services to our member companies, especially those doing employee surveys. But what particularly caught their eye, was that while the Secretariat is proposing sweeping disclosure requirements for companies to disclose all their employee-related costs, the standard expressly excludes, in the only exclusion in the proposal, the reporting of the amount companies spend on the types of activities conducted by organizations such as SHRM.

For these reasons, and the more detailed ones provided below, we encourage the SHRM HR Standards Secretariat to withdraw this proposal. Following that, we suggest that the Secretariat determine —with far more precision than what is contained in this proposal— what problem , if any, it is seeking to solve, whether that is a problem both worth a solution and capable of one, and whether the benefits of that solution substantially outweigh its costs.

The Proposed Standard

The investor metrics proposal characterizes the standard as a "SHRM HR Standard" created through a voluntary consensus standards development process administered by SHRM. According to the proposal, "Establishing respected and durable measurements of human capital value that must be included in investor communications is crucial for presenting a full picture of the performance and wealth of an organization." The standard purports to provide "guidelines for easy to understand and easy to implement human capital metrics" captured in five main areas:

1. Spending on human capital, which requires disclosure of total headcount and full-time equivalents at period's end and the total amount spent on employees (all wages, benefits and taxes), in support of employees (tools and equipment necessary to do work), in lieu of employees (temps, contractors, outsourcing), and on training and development.

2. Ability to retain talent, which requires disclosure of voluntary and total turnover broken down by EEO-1 job types.

3. Leadership depth, which requires disclosure of the percentage of defined positions with an identified successor, percentage of defined positions filled internally during the period, the titles of all defined positions filled during the period, indicating whether each position was filled internally or externally, and, if an internal candidate was selected, the title of that candidate, and the titles of those in "critical leadership positions."

4. Leadership quality, as reflected in an index of questions from an employee survey.

5. Employee engagement, as reflected in an index of questions from an employee survey.

The information drawn from these five areas would then be summarized in a proposed Human Capital Discussion & Analysis, a narrative intended to provide context and further discussion of the metrics disclosed in the same way as is currently provided through the Management Discussion and Analysis in the 10-K and the Compensation Discussion and Analysis in the proxy statement.

The Basis for the Proposal Is Not Adequately Explained Nor Documented

The proposal makes the following statement in its Summary:

> As the financial services industry builds a common language for communicating business and financial metrics, it recognizes that a significant portion of the value of organizations remains unaccounted for in investment communications. Specifically, the financial value of human capital is inadequately addressed in investment communications (annual reports, 10-Ks, etc.) and so the true wealth of the organization is consistently underreported to investors and other stakeholders.

The proposal, however, provides no basis for such a sweeping statement. Indeed, the "Informative References" section mentions only a single book written fourteen years ago. Moreover, implicit within this statement is the claim that the true wealth of a publicly held company is consistently underreported because financial analysts do not know how to properly value them, a point of view that many on Wall Street would take issue. The Secretariat should provide more support for such a claim.

The Proposed Metrics Are Not Material to the Investment Decisions of Reasonable Investors

The purpose of the corporate disclosure regime overseen by the U.S. Securities and Exchange Commission is to provide investors with "material information" which is information that would be important to a reasonable investor in making investment decisions or in voting for directors. While the information garnered from the proposed metrics may be of general interest to some investors for very different purposes, it is unclear how the proposed standard would be material to the investment or voting decisions of a reasonable investor.

We were particularly struck by the "Instructions for reporting on leadership quality." The proposal says that the measurement for the "Quality of leadership" would be a single "index based on results from a set of relevant questions on an employee survey." End of definition. Leadership, however, is far more than an employee popularity contest. To say that the financial markets should make investment decisions regarding the leadership quality of a company based on how each employee grades senior management in a survey strains credulity. Employee survey input is only one source of data on the quality of leadership. Indeed, many organizations use a 360-degree feedback approach, and to a lesser extent surveys, as a supplemental—not the primary—source of data for the assessment of leaders. Rather, the assessments by the manager of the leader and management one level removed (*i.e.,* the boss of the manager's boss) are the primary basis of how organizations assess leadership quality.

Further, both the leadership quality and employee engagement indices would be derived from highly subjective survey questions which would require employees to make assessments and judgments on issues which they are not likely to have any knowledge about (*e.g.,* "Our leaders have an authentic purpose that goes beyond short-term profits") or be qualified to assess (*e.g.,* "The senior leadership is very capable"). It is difficult to see how this could or should play a role in the financial modeling undertaken by investors who are analyzing a company and who judge the quality of leadership based on actual business results.

In addition, human resource norms vary so significantly among industries and regions that it is unlikely investors would have the means (or the interest) to analyze each sector separately to differentiate "good" versus "bad" results. For example, in measuring the "ability to retain talent" the proposed metrics would not account for significant variations such as turnover rates that tend to be substantially higher in the retail industry than in manufacturing, and higher in many Asian countries than in the United States. Additionally, high turnover in a particular period may reflect a necessary business decision such as changing lines of business, where the skills needed under the new line are vastly different from the one being phased out. However, there is no recognition of this critically important business reality in the standard. Moreover, while senior executives internally have the business and strategic context to evaluate turnover as an important HR metric, turnover statistics in and of themselves do not reflect the health of a company in any measurable way. Indeed, such statistics cannot be interpreted without much more extensive information about the company's goals and strategy.

Further, the metrics selected for the standard will result in an extremely wide range of "good" results; that is, results which could all be appropriate based on a particular company's position and business strategy. For example, with respect to leadership depth every company is likely to have a different balance of externally versus internally filled positions. This percentage, in and of itself, says nothing about the company's bench strength, preparation for a leadership transition, or ability to manage people changes. Is a company more valuable if it fills certain positions externally rather than internally as the proposal infers? If all positions are filled internally, does that make it a high value company? The answers to these questions are so unclear and would require considerable additional explanations to put them into context, that it seems very unlikely that investors would take the time to analyze them. Thus, such information is not likely to be material to an investment decision.

Many of the Metrics Would Put Companies at a Competitive Disadvantage

Several of the human capital metrics included in the standard seem to have been created with no sensitivity to a company's competitive position and risk exposing publicly traded companies' confidential or sensitive information to their competitors.

For example, in order to measure leadership depth the proposal requires companies to identify the percentage of defined positions with identified successors and the percentage of defined positions filled internally during the last fiscal period. This is highly strategic information which a company may not wish to disclose to its own employees, let alone to the general public. Not only does it speak to overall company direction and strategy, it could also reflect confidential information about a change in direction which could cause the company competitive harm if disclosed. For example, a change in the extent to which a company fills positions externally versus internally in a certain business or region might speak to the company's plans to terminate or expand a line of business—information which competitors could use to the company's detriment. In fact, even under federally-required disclosures, there is an exception allowing companies to forego disclosing material information that is likely to lead to competitive harm. Yet, no such exemption exists in the proposed standard.

Moreover, the provisions in the standard around measuring and disclosing leadership depth also require companies to disclose the actual titles of all defined positions filled during the period, indicating whether each position was filled internally or externally, and, if an internal candidate was selected, the title of that candidate. It also requires companies to disclose the actual titles of those in critical leadership positions, and even suggests that certain key non-executive roles such as Research and Development talent should be defined as critical leadership and publicly disclosed. At senior levels, disclosing this information could be tantamount to identifying the individuals involved by name. This information has considerable competitive value and tells competitors exactly how the company is staffed and organized. Of equal or even greater concern, it is likely to make the company that discloses it a clear target for executive recruiters and competitors looking for talent.

Additionally, the standard requires companies to disclose considerable amounts of information regarding their compensation structures, reliance on contingent workers, and strategy with regard to full-time versus part-time staffing. First, it seems to presume that there are ideal compensation structures and correct full-time, part-time and contingent worker balances. However, each company is organized differently, is structured differently, is staffed differently, and compensates its employees differently. Secondly, this information, when combined with the disclosures around leadership strategy, puts the companies disclosing it at risk. Organizations subject to competitive RFPs could be put at a disadvantage when their competitors are able to undercut a bid based on insight into margins and other proprietary information gleaned from these disclosures.

Finally, the standard requires companies to disclose the results of employee surveys with regard to leadership quality and employee engagement. Not only is this information highly valuable to competitors and recruiters, it makes the company unnecessarily vulnerable to media exploitation by reporters looking for a quick "gotcha."

The Cost of the Proposed Standard Outweighs Any Possible Benefit

As the regulation of public companies by the Securities Exchange Commission, the Department of Labor, Environmental Protection Administration, and a host of other regulatory bodies continues to grow, so too does the number and extent of public filings. The Secretariat's proposed standard requires publicly traded companies to add even more disclosures to already overly long filings, and with it would come the attendant enlargement of corporate bureaucracies and retention of additional outside consulting firms. Yet, no case has been made for the burden of amassing all this information in terms of whether there is a tie to actionable financial metrics or adding real value. In fact, a recent CFO.com article expressed concerns with the proposed standard, saying that there was "little interest" among investors who were contacted by the publication regarding the proposed metrics. The article quotes Morningstar's Peter Wahlstrom as stating, "I don't think the value extracted from receiving this information, at the proposed level of detail, will outweigh the incremental cost incurred by the company to provide it."

The standard claims that "in selecting these indicators of human capital we strove to rely on metrics that were relevant to investors, readily produced from information corporations already had on hand, and were auditable. Practicality was an overriding concern and organizations should have little trouble adhering to this standard." That statement would provide some reassurance if it were the experience of the large global companies who make up the membership of our Association and who would be most affected by the proposal—but it is not. The data required for this disclosure is not currently gathered by all companies nor is it collected in this form from all the regions in which they do business. Therefore, it would require significant time, effort and resources for our members to track down and collect the proposed information on a routine basis. Statistics such as global spending on human capital or global turnover may sound easy to collect, but in fact they require sophisticated human resource information systems —or extraordinary manual effort— and may have considerable impact on operations, budgets and corporate resources. Companies may have tens of thousands of employees stretched out over dozens of countries, few of which have common data systems, and most often these business arrangements are in joint ventures. Obtaining the data would be difficult and time-consuming as definitions for many of the data points required will vary widely among countries, and companies would face difficulties attempting to reconcile and normalize currency fluctuations in aggregating the data.

In particular, the required disclosure of total compensation for all employees globally would be inordinately complex and time-consuming to generate for many companies. Most companies, especially larger multinational companies, do not maintain a centralized list of employees that is linked to their compensation information. Instead, information about each individual employee, including payroll data, is typically maintained within each country, business unit or individual location where the company does business. Further, compensation packages vary tremendously across the globe and may be recorded in very different ways—some are even subject to data privacy regulations depending on the country. Consolidation of this disparate data for the purpose of disclosing total employee compensation as part of the standard would be a significant and costly undertaking in order to produce a statistic whose materiality to investors is questionable at best.

The Proposed Standard Not In Keeping With ANSI's Mission Nor Its Objectives

We understand that the Secretariat's intent is that their investor disclosure standard would one day be recognized by the American National Standards Institute (ANSI). ANSI's mission, as stated on its website, is "to enhance both the global competitiveness of U.S. business and the U.S. quality of life by promoting and facilitating voluntary consensus standards and conformity assessment systems, and safeguarding their integrity." The Institute further states that it "empowers its members and constituents to strengthen the U.S. marketplace position in the global economy while helping to assure the safety and health of consumers and the protection of the environment." In addition, ANSI's Standards Strategy Principle of "Effectiveness and Relevance" states that "standards are relevant and effectively respond to regulatory and market needs, as well as scientific and technological developments."

The proposed standard states that "establishing respected and durable measures of human capital that must be included in investor communications is crucial for presenting a full picture of the performance and wealth of an organization." Yet, the standard provides no evidence that investors have been actively seeking this information from companies or that they are advocating for the expansion of already lengthy corporate disclosures to incorporate these measures. Except for a series of conclusory statements, the standard fails to articulate with any degree of specificity how the standards are relevant or how they are responding to regulatory and market needs.

Further, as laid out above, the Association does not believe that the proposed standard enhances business competitiveness. Rather, the standard would compromise it by requiring the disclosure of sensitive information which can be used against the companies reporting it. HR Policy agrees that human capital has an impact on organizational success. It also believes that certain aspects of the proposed standard may have a place as an internal tool to measure the effectiveness of HR programs, and thus align those programs and policies with business strategy. However, the standard does not effectively respond to a regulatory need, and its focus on public disclosure carries costs which far outweigh any possible advantage to the market.

The Standard Appears To Be Highly Self-Serving

Compliance with the standard would necessitate companies relying quite heavily on outside vendors and consultants in order to generate the data needed for disclosure. Several metrics essentially require the use of a consultant of some kind to produce the requisite leadership quality or engagement indices – in fact, the standard encourages this outright, which is noteworthy given the significant presence of management consultants on the Taskforce involved in the development of this proposal. The employee survey consulting firms alone would reap significant financial benefits without providing much of real value to investors.

But what we find to be the most self-serving in the Secretariat's proposed standard is Section 5.6, titled Investment in Training & Development, which would require disclosure of all "direct spending" on training and development. But it explicitly exempts from disclosure any costs associated with traveling to, paying for, attending, and teaching at conferences as well as lost work time while engaged in "formal learning activities." This appears to be an express exemption for SHRM related activities. Why wouldn't organizations like SHRM want the investment community to know how much is being spent by companies on employees traveling to, participating in, teaching at, or attending HR conferences? In fact, this is the only place in the standard where disclosure of a particular set of human capital costs is specifically excluded.

Conclusion

Given the significant concerns that the investor metrics standard raises regarding the disclosure of strategic data relevant to a company's competitive position, the fact that the information to be assembled is neither material to investors nor provides comparable information among companies and carries a significant cost of compliance which far outweighs any benefit, HR Policy Association urges the Secretariat to withdraw its proposal. To the extent the Taskforce believes a standard on HR metrics is desirable, it should focus on the development of effective metrics which can be used *internally* within companies rather than adding unnecessarily to the already burdensome body of required public disclosure requirements.

Sincerely,

Michael D. Peterson
Vice President, Benefits & Employment Policy;
Associate General Counsel