

Telling the Talent Story

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The push to create standardized reporting opens the door to give the story behind the numbers.

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What do these influential leaders have in common: Michael Bloomberg, former mayor of New York City; Mary Shapiro, former chairman of the Security and Exchange Commission; and Robert Herz, former chairman of the Financial Accounting and Standards Board.

They're all board members of the Sustainability Accounting Standards Board. SASB is designed to mimic the role of the Financial Accounting and Standards Board, the nonprofit that established the GAAP accounting standards in 1973.

The SASB aims to develop and disseminate accounting standards for corporate sustainability that, in the group's view, solve the limitations of financial reporting. It argues that financial reporting was "developed in a time when a company's ability to create value was constrained largely by the ability to access financial capital."

To counter this thinking, the SASB strives to create standardized reporting that reflects today's broader range of risks and opportunities.

Talent leaders should understand what motivates the SASB because a significant element of "sustainability reporting" is human capital. The goal of this new breed is to have "smarter" financial reports that better reflect how human capital and other traditionally overlooked elements affect organizational performance.

These measurement dimensions include environment, social capital, business model, innovation, leadership, governance and human capital. The human capital dimensions the

SASB aims to include are labor relations; fair labor practices; employee health, safety and well-being; diversity and inclusion; compensation and benefits; and recruitment, development and retention.

The SASB measures “materiality,” an accounting concept that reflects whether something does — or should — influence organizational performance and, therefore, investor decision-making. It provides a “materiality map” that rates the materiality of different issues for different industries.

For example, in health care the issues of employee health and safety and recruitment and retention are deemed material, but others are not. The SASB measures materiality by stakeholder interest in the issue and evidence of financial impact.

Similarly, the International Integrated Reporting Council, another group pushing for broader value-creation metrics in corporate reporting, says “an integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.”

In other words, materiality requires distilling an array of disjointed measures by their relevance and logical connection to organizational risks, opportunities and performance.

Materiality requires a logical connection to an organization's environment, processes and performance.

For talent leaders, that means the story behind human capital measures. Financial and sustainability luminaries, reporting organizations and investors are asking: What makes talent and human capital issues more or less material for a company or industry?

If the SASB's push shows anything, it's that the answer is far from settled. Human capital reporting varies widely. A study by HR consultancy and research firm McBassi & Co. shows how companies are responding to the challenge — companies are reporting a great variety of useful information, but there is no established coherent standard.

So where do you need talent that is better than your competitors to win, and where would improving your people or organization make the biggest difference in your success?

It appears reporting agencies are trending toward just such questions, under the auspices of materiality.

Who will decide which human capital measures are material for your organization or industry? Who will construct the logic model and story that answers the question?

Talent managers have a role to play in defining the materiality of human capital. But they must first look beyond articulating a list of human capital measures.

They must connect talent management and other HR endeavors logically and clearly to sustainability and financial performance. That requires strategic acumen and the courage to admit that some talent elements matter more than others.

Not everything that can be measured is relevant everywhere.

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