

The Effects of Human Capital Disclosures on Professional Investors' Assessments of Firm Risk

We conduct an experiment among professional investors to examine whether human capital disclosures affect their assessments of firm risk. Human capital is a major contributor to firm value, yet market participants have voiced concerns that firms do not provide sufficient detail about their human capital risks and strategies. Our experiment sheds light on two important questions. First, are current human capital disclosures sufficient for investors to make informed investment decisions? Second, if it was provided to them, would investors incorporate additional human capital information into their assessments of firm risk? We find compelling evidence that investors seek out human capital information, but they believe the current disclosure environment is insufficient. To answer our second question, we are guided by the current Securities and Exchange Commission proposal to mandate quantitative disclosures related to employee turnover, temporary worker use, total employee expenditures, and workplace diversity. We randomly provide investors with metrics on these topics and examine whether they incorporate the metrics into their assessments of firm risk. We find evidence that turnover metrics shift the average risk assessments, relative to a control group, but we find little evidence that the other metrics do so. Importantly, across all metrics except employee expenditures, we find evidence that the dispersion of risk assessments increases, relative to the control group. These results suggest that investors demand and use human capital information, but they do not interpret this information in a uniform manner, which may help explain why market forces alone have not resulted in greater disclosure.

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