

I am the James Irvin Miller Professor of Accounting, Stanford Graduate School of Business; Professor of Law (by courtesy), Stanford Law School; Director of the Corporate Governance Initiative; and Senior Faculty of the Arthur and Toni Rembe Rock Center for Corporate Governance at Stanford. I have am the coauthor of *Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences*, as well as many research articles on executive compensation and corporate governance. I am currently a Trustee for Wells Fargo Funds and have served on the boards of various private companies.

I am very supportive of the theme of this Petition.

The disclosure of human capital measures will allow investors to better assess firm performance and valuation. Moreover, the inclusion of human capital measures in executive evaluation and compensation packages have the potential to substantially improve the choice of corporate strategy and the long-term value of firms. I believe that requiring firms to disclosure human capital measures will improve corporate governance for public companies.

Research conducted by the Stanford Rock Center for Corporate Governance and the Corporate Governance Research Initiative clearly show that human capital measures do not play an important role in evaluating CEOs.¹ Talent development and succession planning were given a very low weight in CEO evaluation relative to financial measures of firm performance. If talent development and assessment is a key driver of long-term firm performance (which I believe to be true), it is disturbing that human capital measures are given so little weight by boards when conducting CEO evaluations. The development and public disclosure of reliable and valid measures of human capital would be invaluable to boards of directors and investors for assessing the intangible asset commonly referred to as human capital.

Our present level of knowledge regarding human capital measures (as well as other measures of intangible assets such as the customer asset, corporate culture, corporate governance, and ability to innovate) is somewhat modest. It would be highly desirable for firms and regulators to collaborate with researchers to develop comparable measures based on institutional knowledge and rigorous statistical testing. This type of work would address the common critique that the required disclosure of human capital measures is costly for firms and of limited value to investors.

Overall, I believe that it is important for companies to publicly report insightful and comparable data on human capital. I encourage the Securities and Exchange Commission to give careful consideration to the reporting suggestions in this Petition.

David F. Larcker

¹ 2013 *CEO Performance Evaluation Survey*. Available here: <https://www.gsb.stanford.edu/faculty-research/centers-initiatives/cgri>