



Human Capital Journey to Embankment Project for Inclusive Capitalism (EPIC)

Erik Bradbury, CPA, Partner

EY

June 11, 2019

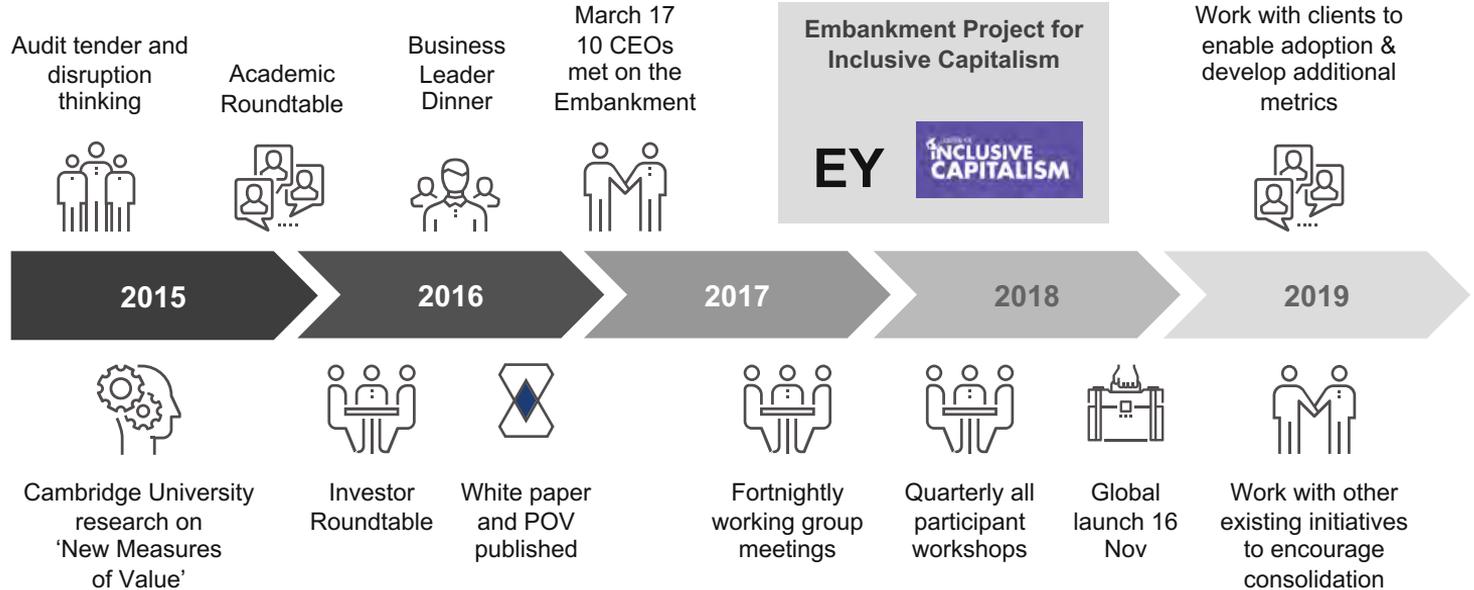


Let's play a short video ...



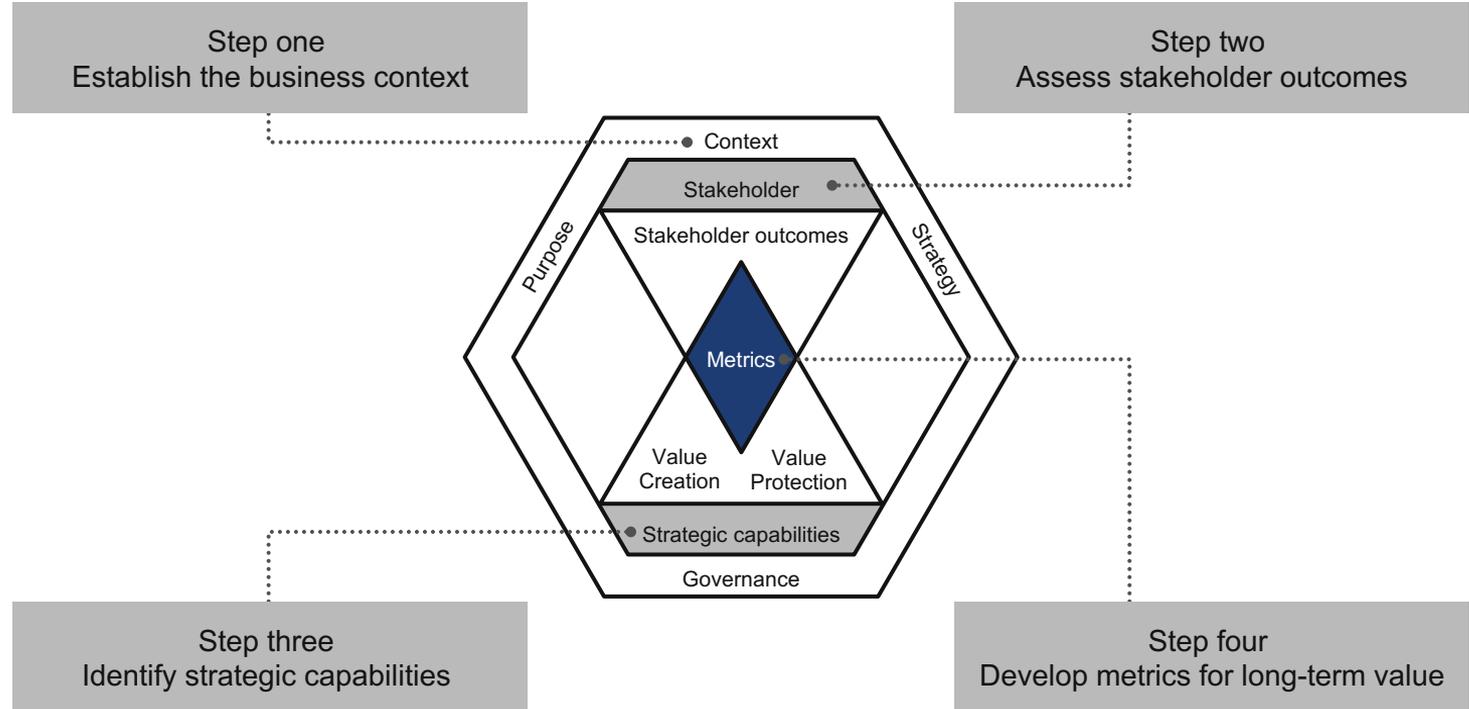


The journey towards EPIC



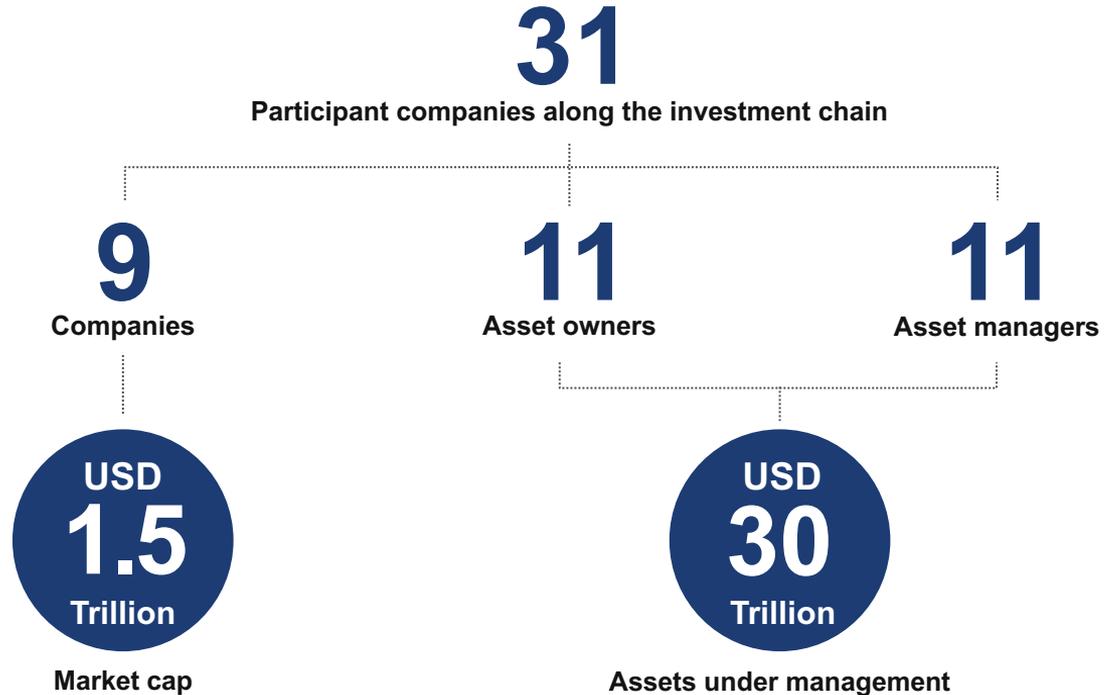


A four step process to develop metrics for long-term value



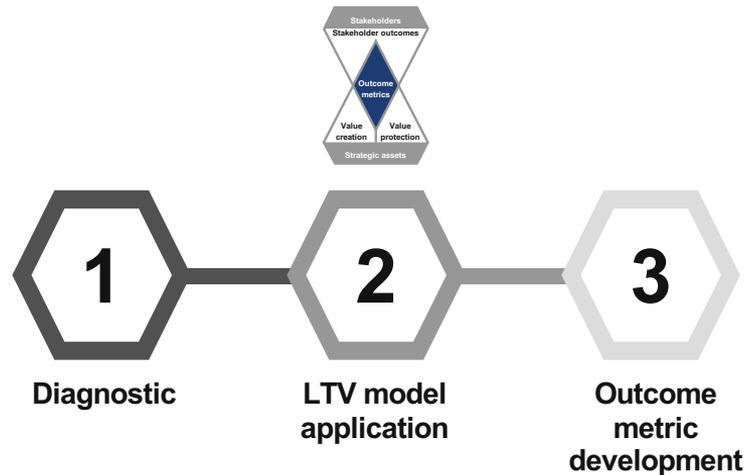
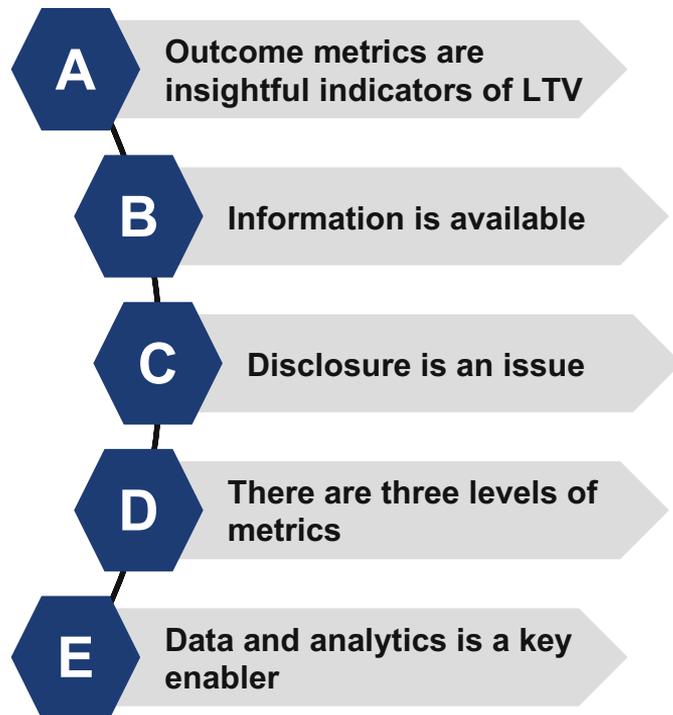


EPIC participants





The Hypotheses





The seven metric-based working groups



Human capital deployment

This group's goal was to identify a combination of metrics that allow management to communicate to investors how effective they are at deploying their human capital.



Organizational culture

This group aimed to identify a common taxonomy to communicate culture and develop comparable leading indicators for a number of the components of culture.



Consumer trust

This group aimed to use a big-data enabled metric that utilizes natural language processing to extract a signal from social media and the wider internet to measure trust..



Innovation

This group worked to develop a narrative and supporting metrics for companies to communicate their innovation strategy and performance.



Sustainable Development Goals (SDGs)

This group aimed to establish links between the SDGs and their related business themes before identifying appropriate metrics for these themes.



Corporate governance

This group worked to define the nature and extent of a narrative disclosure for corporate governance and to identify key qualitative and quantitative indicators not already broadly required by legislation.



Health

The goal of this group was to identify metrics that capture both positive and negative improvements in health for employees, consumers and society



Methodology and existing initiatives working groups



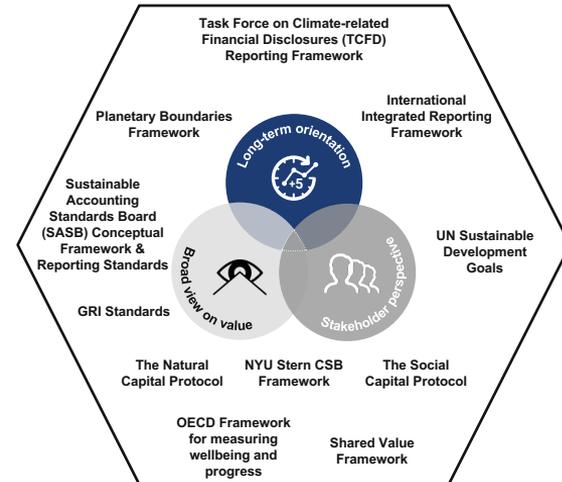
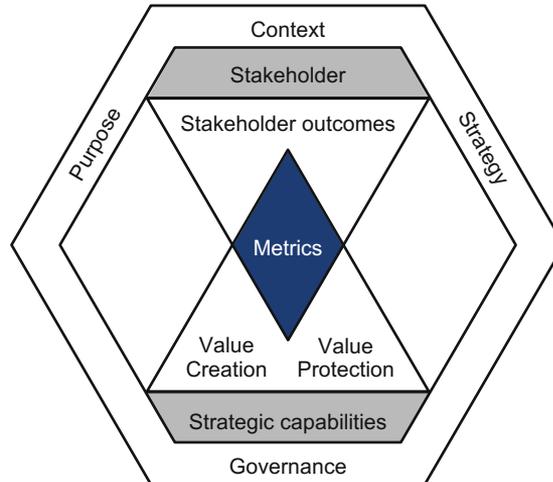
Methodology

This group worked to ensure a) the working groups define complementary outcomes and metrics based on a holistic and validated Long Term Value Framework and b) the consistent application of the framework.



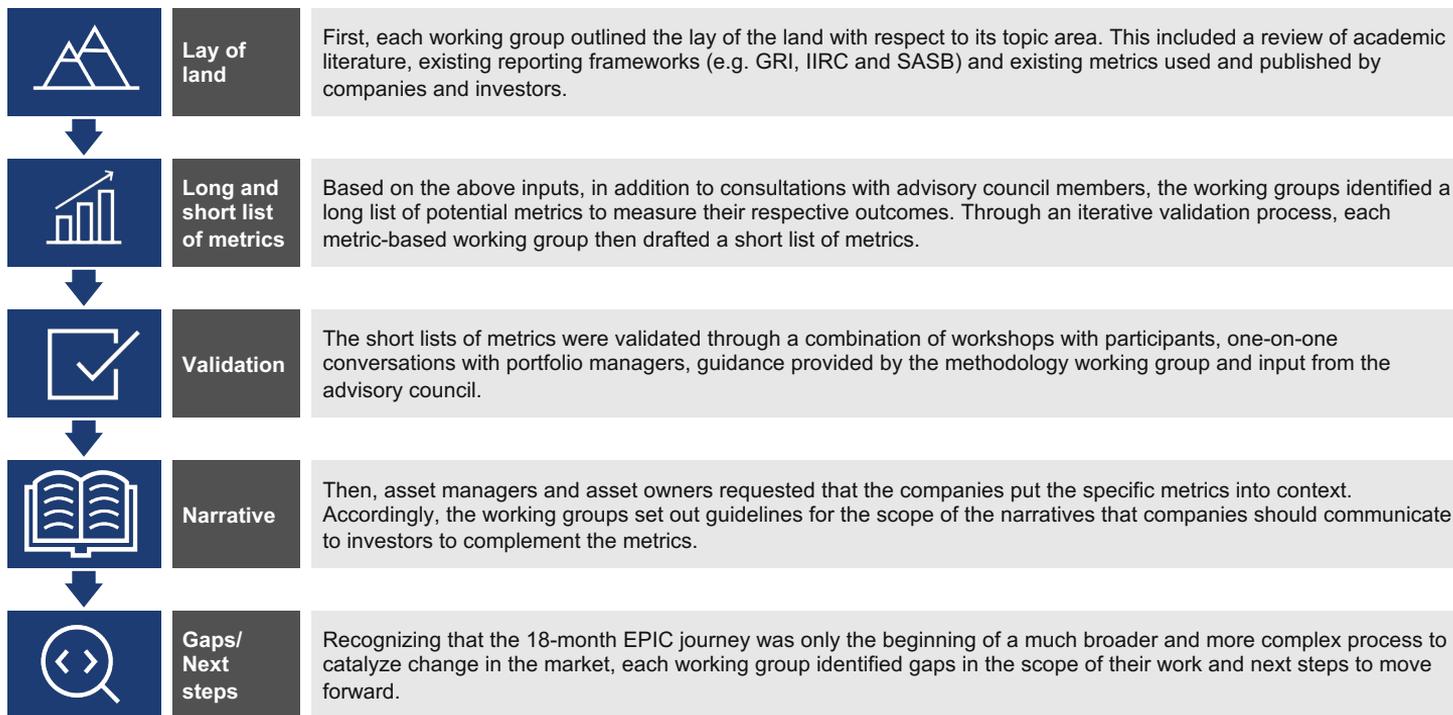
Existing initiatives

This group analysed the landscape and identified opportunities for EPIC to engage with other relevant initiatives.





Measuring long-term value





Human capital working group objectives

Overall objective of the working group

Shifted our focus beyond employee engagement to **human capital deployment (HCD)**

Worked on two hypotheses:

- The utilization, retention and deployment of human capital is a key differentiator between organizations
- The need for a consistent and comparable way to communicate the way employees drive long term value

Sprint 3 objectives

- **Filling the gaps:** What additional metric do we need?
- **Statistical Analysis:** Does data support our WG view?
- **Exploring narrative reporting:** What does good narrative reporting look like and how to sell the long-term story to investors?
- **Develop a case study:** Putting our findings to use through the lens of an AC



Human capital working group approach

Academic Research

Data was drawn from reports for:

S&P 500 2012-2017

FTSE 100 2011-2017

Fortune 100 (excluding US, UK and Chinese firms) 2012-2017

Analysis by Lancaster University Management School under the direction of Dr Anthony Hesketh

Examined both qualitative and quantitative data:

1. Quantum – financial fundamentals
2. Narrative – Human capital narrative disclosure of spend, operational activities, strategic and operational goals and behavioural data points relating to employee attitudes at work

Metrics

Quantum research focused on HCD data analysis to support the 8 categories identified

Preliminary testing of 8 metrics against the LTV Methodology

Narrative framework

Identification of principles of good narrative reporting

Case study

Identification of sample AC (J&J) to test against HCD framework (metrics and narrative).

Goal: Identify gaps in current reporting and potential areas for improvement

Analysts perspective

Share findings with Portfolio Manager and gather feedback



Human capital working group categories and metrics

5 categories of Human Capital Deployment were used for academic analysis. Each category contains several human capital factors:

- **Workforce costs:** The total cost of all employees, including their base salary, bonuses, incentives and benefits along with any employer cost such as tax
- **Attraction, recruitment and turnover:** Gives insight into recruitment and retention trends, the employee brand for attracting staff and turnover periods (both voluntary and involuntary)
- **Workforce composition and diversity:** Includes data around the employee profile, role ratios, headcount, modes of employment and leading trends around inclusion
- **Training, learning and development:** Covers benefits occurred due to training and the investment in training and how it has led to an improvement in employee knowledge and capability
- **Engagement and wellbeing:** Metrics such as engagement scores and employee commitment to the organisation, along with reporting any ill health retirements and voluntary retirements would be covered in this section

Our early analysis of participants reports looked for evidence of 8 categories

- 
- **Employee Cost**
 - **Pensions Assets & Liabilities**

- 
- **Recruitment**
 - **Turnover**

- 
- **Diversity**

- 
- **Training & Development**

- 
- **Engagement**
 - **Wellbeing**



Human capital working group conclusions

HCD matters:

- Employees are **intangible assets** of an organization with real value that does not exist on the balance sheet today and is **largely under disclosed** by firms
- Our research indicates that utilization, retention and deployment of those assets, and the disclosure of such information may be a **key differentiator**
- The ability of a firm to lead the way by articulating its HCD story utilizing metrics and narrative discussion speaks directly to **investors of tomorrow**, and is a potential bridge allow investors to recognize the value of HCD in their investment decision making
- Organizations should be evaluating, monitoring and assessing its key HCD metrics

Five endorsed categories of HCD:

1. Workforce costs
2. Attraction, recruitment and turnover
3. Workforce composition and diversity
4. Training, Learning & Development
5. Engagement and wellbeing

Disclosure is key:

1. Disclosure of HCD information is critical in understanding how organizations utilize, retain and maximize the potential of its employee base to create long-term value
2. Narrative without metrics, metrics without narrative will not move the needle. Both are needed for “good disclosure”