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

Erik Bradbury, CPA, Partner
EY
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Let’s play a short video …
The journey towards EPIC

- Audit tender and disruption thinking
- Academic Roundtable
- Business Leader Dinner
- March 17: 10 CEOs met on the Embankment
- Embankment Project for Inclusive Capitalism
- Cambridge University research on ‘New Measures of Value’
- Investor Roundtable
- White paper and POV published
- Fortnightly working group meetings
- Quarterly all participant workshops
- Global launch 16 Nov
- Work with clients to enable adoption & develop additional metrics
- Work with other existing initiatives to encourage consolidation
- Work with other clients to enable adoption & develop additional metrics

2015
2016
2017
2018
2019
A four step process to develop metrics for long-term value

Step one
Establish the business context

Step two
Assess stakeholder outcomes

Step three
Identify strategic capabilities

Step four
Develop metrics for long-term value
EPIC participants

Participant companies along the investment chain

9 Companies
USD 1.5 Trillion
Market cap

11 Asset owners
USD 30 Trillion
Assets under management

11 Asset managers
The Hypotheses

A. Outcome metrics are insightful indicators of LTV
B. Information is available
C. Disclosure is an issue
D. There are three levels of metrics
E. Data and analytics is a key enabler
The seven metric-based working groups

<table>
<thead>
<tr>
<th>Working Group</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Human capital deployment</strong></td>
<td>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.</td>
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<tr>
<td><strong>Organizational culture</strong></td>
<td>This group aimed to identify a common taxonomy to communicate culture and develop comparable leading indicators for a number of the components of culture.</td>
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<td><strong>Consumer trust</strong></td>
<td>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.</td>
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<tr>
<td><strong>Innovation</strong></td>
<td>This group worked to develop a narrative and supporting metrics for companies to communicate their innovation strategy and performance.</td>
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<tr>
<td><strong>Sustainable Development Goals (SDGs)</strong></td>
<td>This group aimed to establish links between the SDGs and their related business themes before identifying appropriate metrics for these themes.</td>
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<tr>
<td><strong>Corporate governance</strong></td>
<td>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.</td>
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<tr>
<td><strong>Health</strong></td>
<td>The goal of this group was to identify metrics that capture both positive and negative improvements in health for employees, consumers and society.</td>
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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.

Context

Stakeholder

Metrics

Value Creation

Value Protection

Strategic capabilities

Governance

Purpose

Stakeholder outcomes

Strategy

Long-term orientation

UN Sustainable Development Goals

Task Force on Climate-related Financial Disclosures (TCFD) Reporting Framework

International Integrated Reporting Framework

Sustainable Accounting Standards Board (SASB) Conceptual Framework & Reporting Standards

GRI Standards

The Natural Capital Protocol

NYU Stern CSB Framework

The Social Capital Protocol

OECD Framework for measuring wellbeing and progress

Shared Value Framework
Measuring long-term value

First, each working group outlined the lay of the land with respect to its topic area. This included a review of academic literature, existing reporting frameworks (e.g. GRI, IIRC and SASB) and existing metrics used and published by companies and investors.

Based on the above inputs, in addition to consultations with advisory council members, the working groups identified a long list of potential metrics to measure their respective outcomes. Through an iterative validation process, each metric-based working group then drafted a short list of metrics.

The short lists of metrics were validated through a combination of workshops with participants, one-on-one conversations with portfolio managers, guidance provided by the methodology working group and input from the advisory council.

Then, asset managers and asset owners requested that the companies put the specific metrics into context. Accordingly, the working groups set out guidelines for the scope of the narratives that companies should communicate to investors to complement the metrics.

Recognizing that the 18-month EPIC journey was only the beginning of a much broader and more complex process to catalyze change in the market, each working group identified gaps in the scope of their work and next steps to move forward.
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
Examine 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.”