



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

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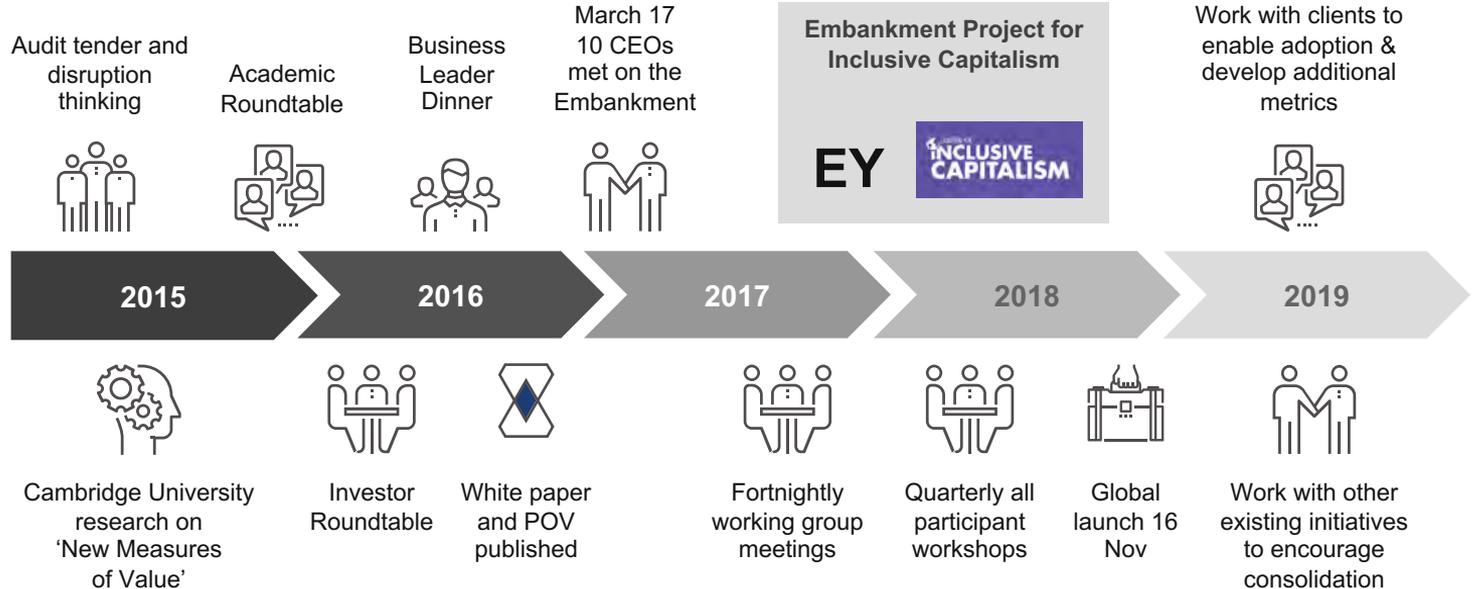


Let's play a short video ...



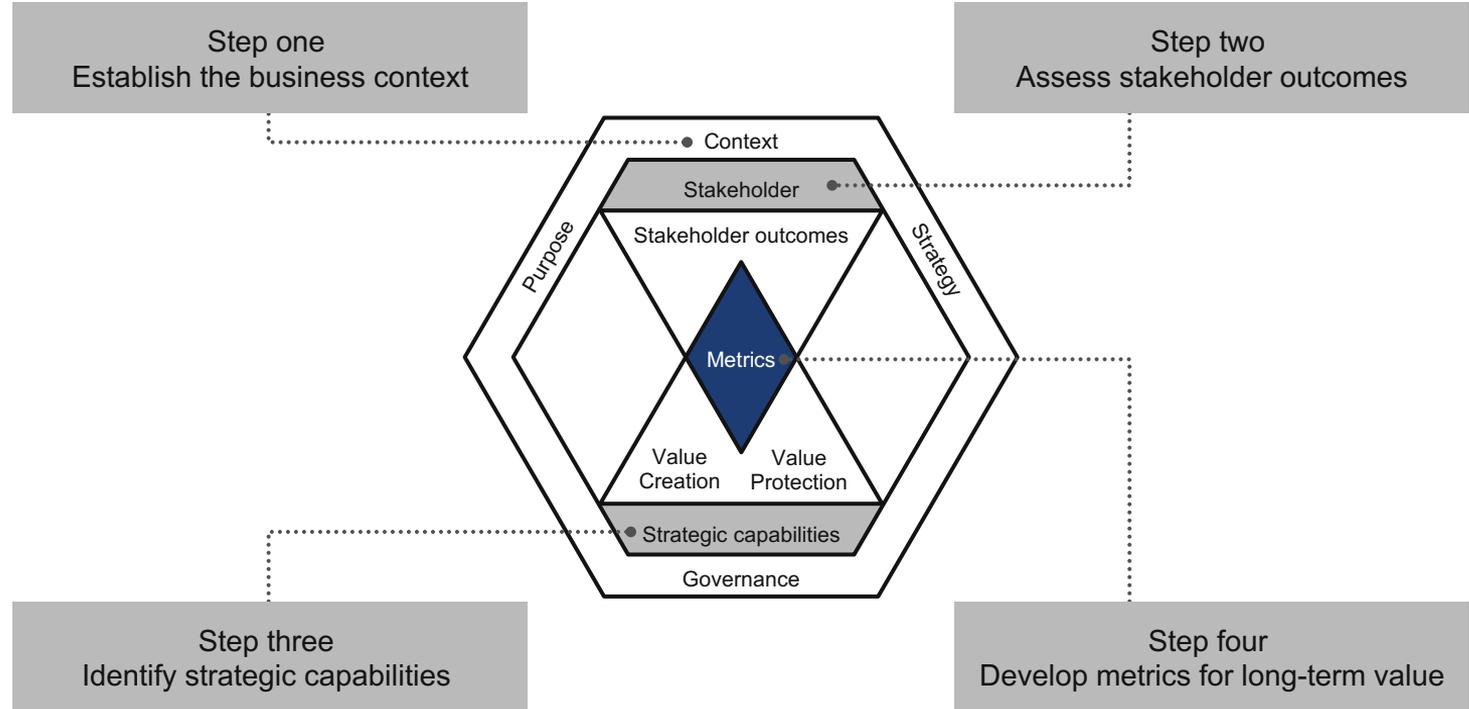


# The journey towards EPIC



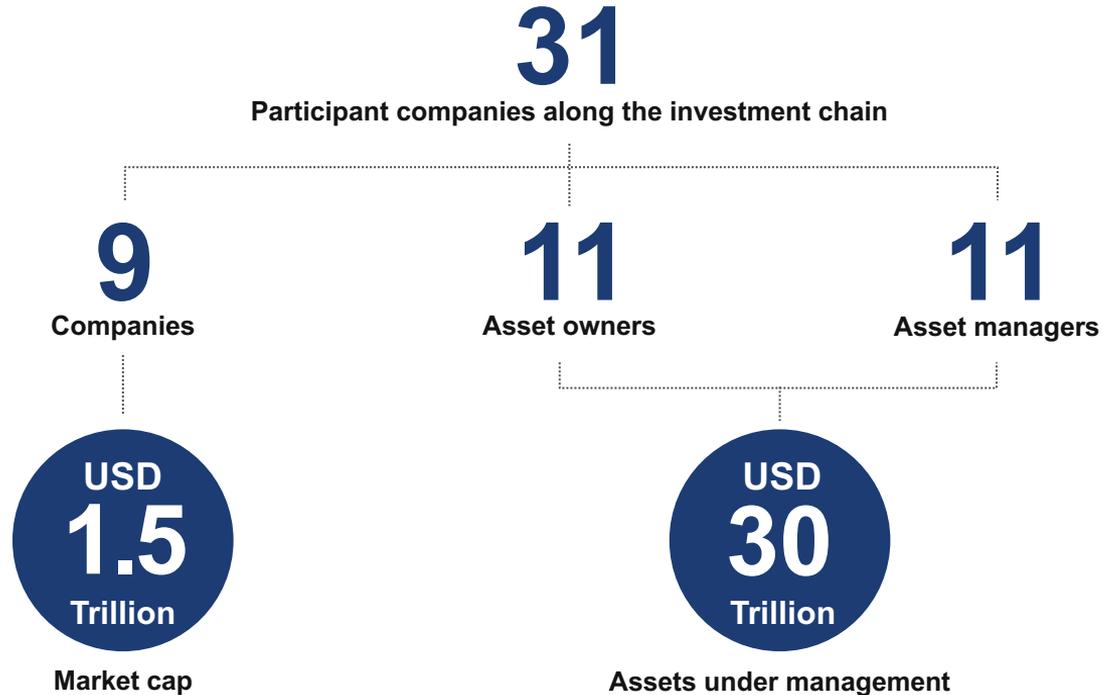


# A four step process to develop metrics for long-term value



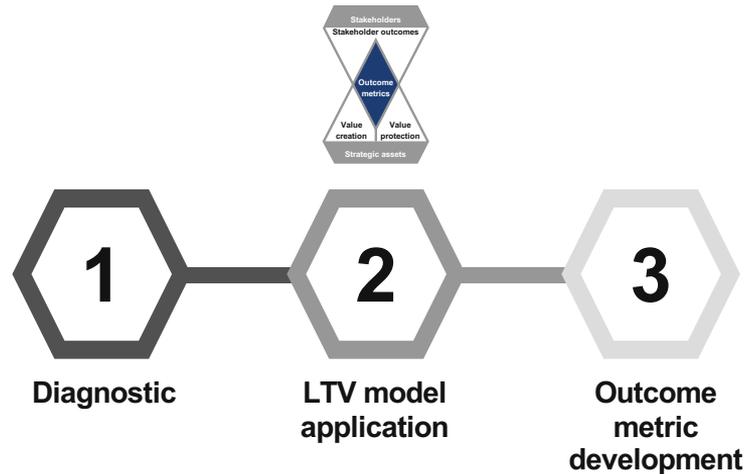
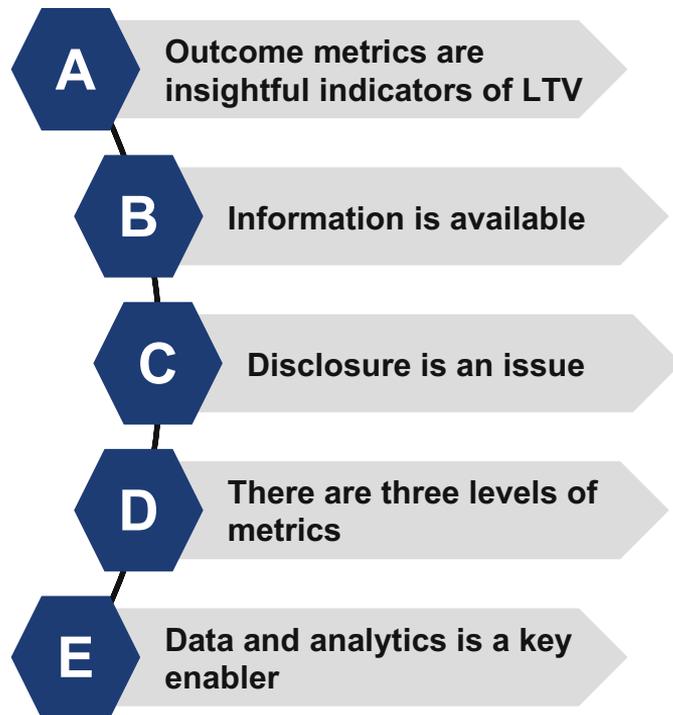


# EPIC participants





# 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



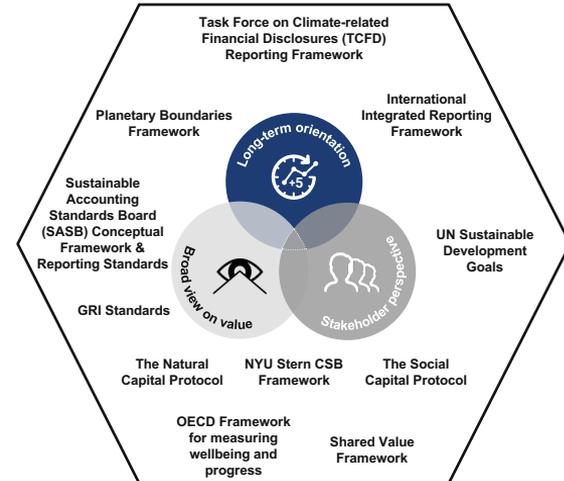
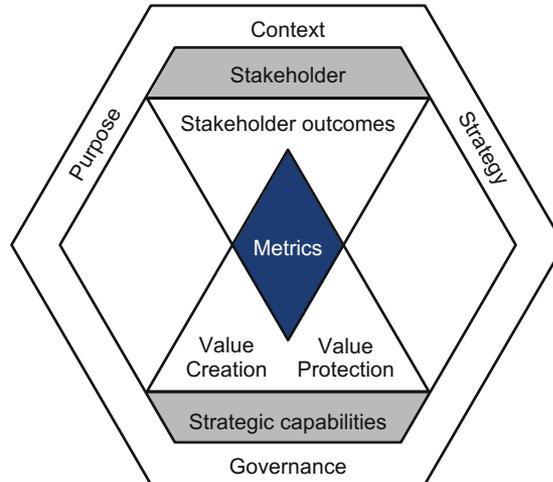
## Methodology

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.



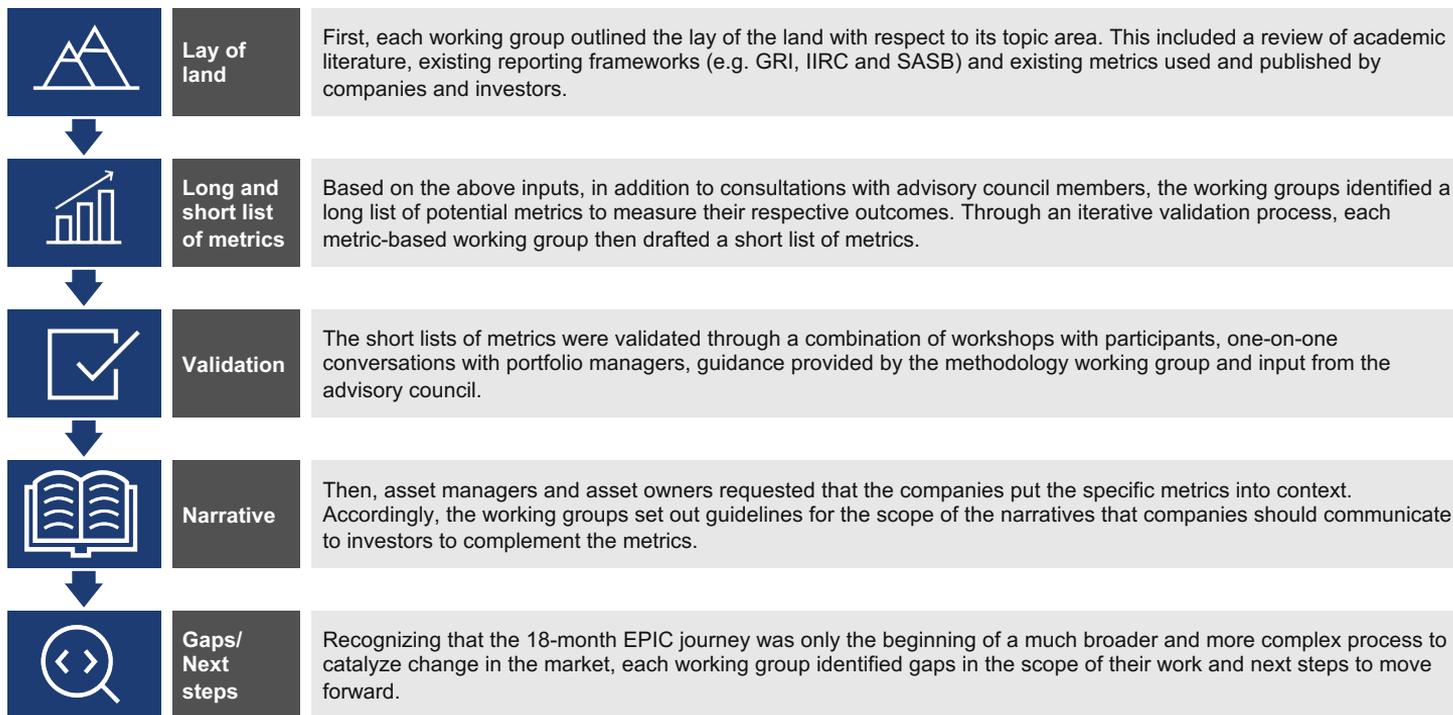
## Existing initiatives

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**

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

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

- 
- **Diversity**

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- **Training & Development**

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- **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”