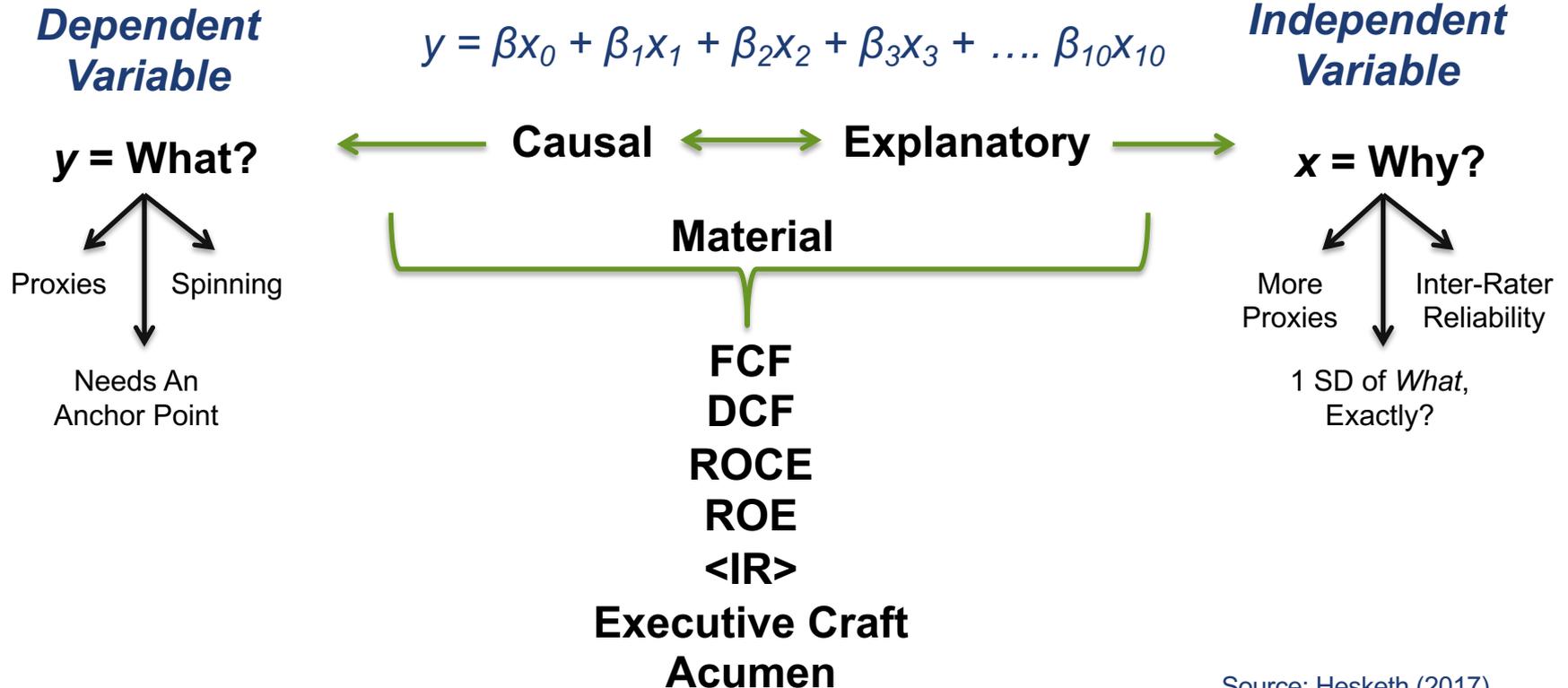


New Research: Human Capital Management Metrics and Performance

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Problems on Both Sides of the Equation



EPIC: Sprint 2 conclusion: Strategic human capital deployment

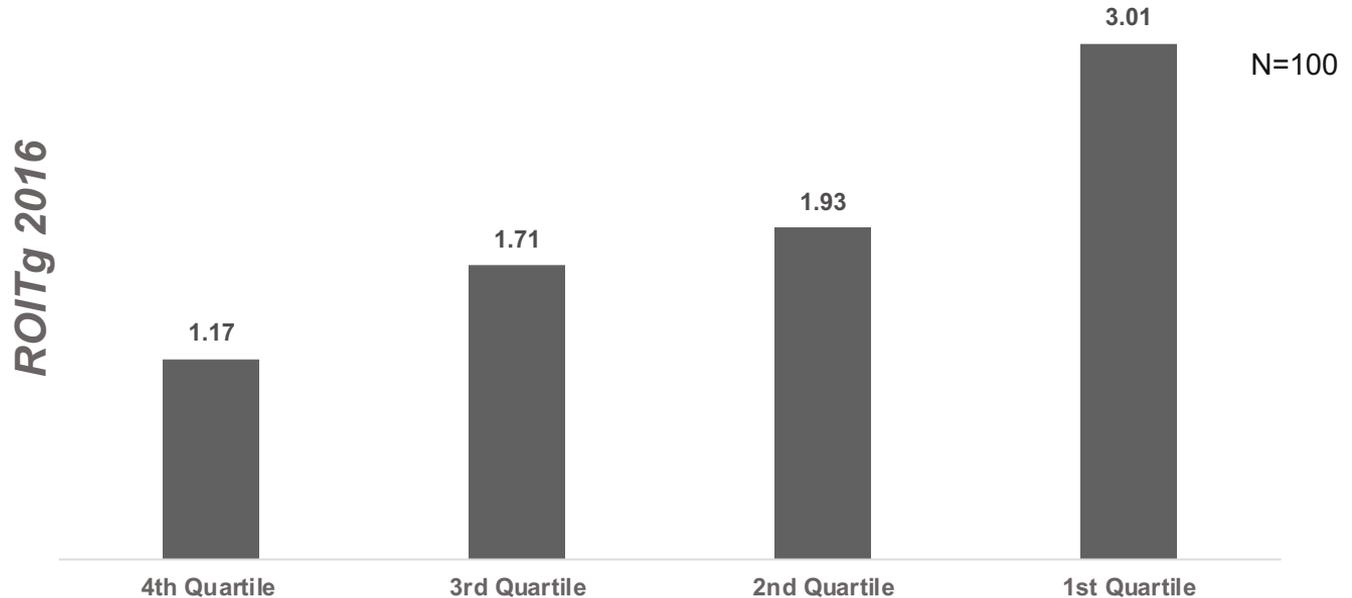
Underlying Concepts	Definition	Example Metrics
Human capital deployment	The ability to deploy the human capital asset	<ul style="list-style-type: none"> - Employee Engagement - Workforce Cost (Salaries & Benefits) - Recruitment Cost - Training & Development - Turnover Statistics
Strategic human capital deployment	Creating a link between human capital and overarching strategy	<ul style="list-style-type: none"> - Effective Narrative Reporting (<IR>) - Convincing stories - Bespoke Not Prescribed Metrics - Helping investors to make investment decisions
Fundamentals of human capital deployment	Connecting workforce metrics back to more traditional financial metrics	<ul style="list-style-type: none"> - Revenue/Employee - EBIT/Employee - Gross Return On Invested Talent (ROIT_G) - Return On Employee Engagement (ROEE) - Human Capital Predictors of Profitability
Human Capital Asset	The long term value of the human capital resources owned, managed and protected by the firm	<ul style="list-style-type: none"> - Fixed Assets / Employee Costs - Total Assets / Employee Costs - Net Return On Invested Talent (ROIT_N)

Comparison between EPIC indicators and the 2019 Bill

EPIC Disclosure Items	2019 Bill Disclosure Items	Examples
Human capital costs	(I) Workforce compensation and incentives	Salaries, wages, bonuses and pension benefits of all employees
Turnover	(B) Workforce stability information	Voluntary/involuntary leavers and incoming employee data points
Workforce Composition	(A) Workforce demographic information (C) Workforce composition (D) Workforce skills and capabilities	Full/part time employee numbers Diversity & inclusivity (EDI), skills, capabilities and other related data points
Training and development	(D) Workforce skills and capabilities	Total training days, type and costs
Engagement, wellbeing and culture	(E) Workforce culture and empowerment (F) Workforce health and safety	Employees' attitudes to work e.g., purpose, wellbeing and empowerment Frequency, severity, and lost-time due to injuries, illness, and fatalities
N/A	(G) Human rights commitments and their implementation	Principles used to evaluate risk, constituency consultation processes, and supplier due diligence



UK: HCRI signals relative employee out-performance

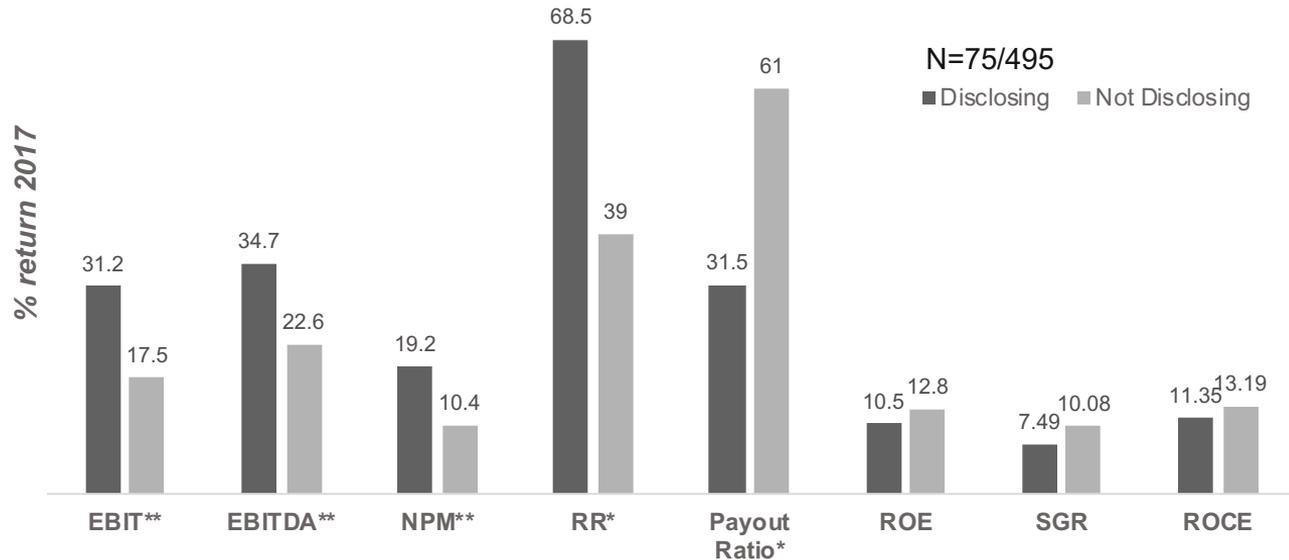


These data are compiled from HCR scores of equal weighting across all five variables and splitting firms into overall score quartiles. HCR appears to signal firms securing higher productivity from their employee base disclose more human capital related data. This suggests we cannot rule out human capital factors as a leading indicator of out-performance.

Source: FTSE100 & firm publications, Analysis by Lancaster University Management School for EPIC



Value creation v value transfer



Reading from left to right, this chart illustrates how value creation and value transfer differ between those firms who disclose their human capital costs (n=75) and those who do not. Firms disclosing their HC costs perform strongly in value creation, whereas those firms not disclosing their costs offer their shareholders higher rates of returns, but not significantly so. These findings are broadly repeated across the last three years (2015-17) with the pattern then breaking down pre-2015, suggesting modification in the underlying decisions made by disclosers versus non-disclosers in the last several years.

Source: S&P, Compustat & firm publications, Analysis by Lancaster University Management School for EPIC

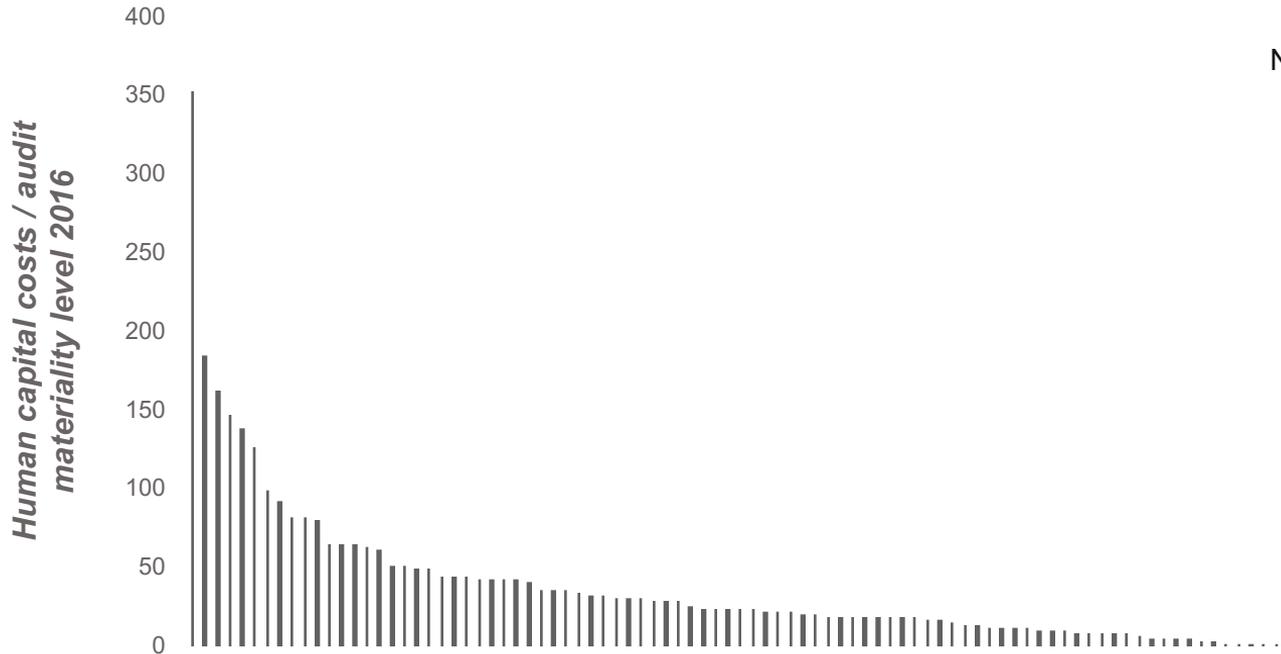
Disclosers outperform non-disclosers

Yearly Average Data				
	2017	Mean Excess Returns (%)	Sharpe Ratio	Volatility (Std. Dev.)
Disclosure Group		0.79	0.21	5.42
Non-Disclosure Group		0.73	0.17	0.73
	2016			
Disclosure Group		1.25	0.64	7.77
Non-Disclosure Group		1.11	0.16	7.19
	2015			
Disclosure Group		-0.028	0.005	6.27
Non-Disclosure Group		0.175	0.052	6.79
	2014			
Disclosure Group		1.54	0.31	5.17
Non-Disclosure Group		1.41	0.28	5.74
	2013			
Disclosure Group		3.85	0.64	6.17
Non-Disclosure Group		2.67	0.49	5.83
	2012			
Disclosure Group		1.88	0.26	7.00
Non-Disclosure Group		1.72	0.29	6.45

This slide provides analysis of the performance of disclosing versus non-disclosing firms in relation to two important benchmarks with which asset managers have challenged us. First, *mean excess returns* captures the performance of firms relative to the risk free rate. The second, the *Sharpe Ratio*, helps us to understand the return of an investment compared to its risk and is the most widely used method for calculating the risk-free return. On both measures, the human capital disclosing firms outperform non-disclosing firms in five and four of the six years (2012-17), respectively. Human capital disclosure is, then, financially material in the terms of the asset management's own industry standard.



UK: The materiality of human capital



More than 4/5 firms in the FTSE 100 spend more on their human capital than their formally stated and audited level of materiality. Half FTSE 100 firms exceed this materiality level by greater than a factor of 20, underlying the fiduciary requirements of greater transparency relating to the reporting of human capital management.

Source: FTSE100 & firm publications, Analysis by Lancaster University Management School