The Embankment Project for Inclusive Capitalism ("EPIC"): A Better Way to Value the American Worker

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ABSTRACT

This paper outlines the approach and findings of the Embankment Project for Inclusive Capitalism (EPIC)—an 18-month, private sector-led, bottoms up effort founded on a simple idea: In order for society and economies to thrive and be more inclusive, business needs to focus not only on short term financial results, but also on the long term value created by employees, community reputation, innovation and protection of the supply chain and the planet. EPIC was led by the Coalition for Inclusive Capitalism and EY and its participants included 31 CEOs from asset owners, asset managers and companies representing roughly $30 trillion of assets under management and almost 2 million employees. The project sought to find common ground in the investment value chain about how to measure pre-financial information and identify key long-term value drivers. Human capital is one principal driver that investors and companies agree are strategic assets that help build a company's long-term value. However, investments in people are only accounted for as an expense, so a key task of EPIC was to develop technical tools and to identify data that more effectively capture the value of workers to a company's long-term financial performance. EPIC participants concluded that there are five broad categories and a range of indicators that are helpful in explaining a company's approach to human capital deployment in the context of long-term value creation: workforce costs for all employees; attraction, recruitment and turnover; workforce composition and diversity; training, learning and development; and engagement and wellbeing. EPIC also examined the relationship between human capital disclosure and organizational performance. The analysis showed that companies that disclose human data tend to perform better than those that do not disclose it and tend to focus more on long-term value creation. They also obtain a higher return on investment in talent, which measures the dollar return per one dollar invested in talent. Conversely, incomplete human capital disclosure raises material questions about the completeness of a company's value because of a failure to recognize the value of intangible assets.

THE ISSUE: WORKERS MATTER, DATA MATTER

Over the past few decades, the world has experienced the information revolution, globalization and the disruption of entire industries such as transportation and retail. As business leaders navigate the challenges of our era, there is one thing that still has not changed: the metrics that companies disclose to markets and investors help them evaluate a company's success. Nearly two decades into the 21st century, businesses worldwide are still reporting to financial markets based on accounting principles and concepts that were first codified in accounting standards in the 1970s to record financial results. Today, it is not uncommon that as little as 20 percent of a company's value is captured on its balance sheet—a staggering decline from about 83 percent in 1975.[i] Meanwhile, the majority of a typical company's real value is now reflected in intangible aspects of its business model—relating to things such as innovation, talent, culture and corporate governance—that are difficult to measure. This can result in differences in perspective between businesses and investors—and even between businesses and its own customers and employees.

Most CEOs will say that workers are their company's greatest asset and that attracting and retaining talent is a top priority, but there is no place on the balance sheet for workers to be considered as assets. This is also material to how a company is valued by shareholders: Investing in employee training or innovation programs can be discouraged because the expense can lower short-term profitability or dividends. When companies invest in giving employees the most in-demand skills, however, it is clearly good for their business. It also benefits the employees themselves and equips them for a more successful career. The broader economy and society benefit, too, since the economy grows more sustainably with a more highly skilled and relevant workforce. This perspective is backed by reputable public polling: According to large-scale surveys conducted in 2017 and 2018 by JUST Capital, worker issues were cited as the most important priority guiding how they want companies to behave and what a more just economy could look like.[ii]

Key players in the global business community are mobilizing to address inequality and to promote greater inclusion. For instance, on the margins of the August 2019 G7 meeting in France, a group of global executives signed the Business Pledge Against Inequalities. Participants in the initiative, which is backed by president of France and the OECD, are committing to support more inclusive growth for workers by strengthening equality of opportunity; reducing territorial inequalities; promoting diversity and inclusion; and reducing gender inequality in their workplaces and across their supply chains.[iii] In the same month, the Business Roundtable, an association of 200 companies with over $7 trillion in annual revenue, issued a new Statement on the Purpose of a Corporation that downgraded shareholder primacy in favor of serving a larger set of stakeholders. The statement opened with the following declaration: "Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity."[iv] On a related front, views in the investor and business communities about managing for the long-term are changing as well. For example, in his 2018 letter to the CEOs of invested companies, BlackRock Chairman and Chief Executive Officer Larry Fink called for "a new model of corporate governance" that strengthens long-term value.[v] In line with this mandate, BlackRock's Investment Stewardship program has been engaging companies on the topic of human capital as a competitive advantage. Given the war for talent, BlackRock's position is that companies should explain in their corporate strategy how they establish themselves as the employer of choice for the workers on whom they depend.[vi] This changing of priorities is welcomed, but the challenge is implementing them.

Meanwhile, there is a rapidly evolving political discourse in the US about a company's purpose and value. While business-led initiatives such as those mentioned above are directionally correct, they will foster greater cynicism if there are not measurable ways to measure and report progress towards inclusive growth and the full value that companies deliver to their all their stakeholders, especially workers. Part of this challenge lies in the realm of financial analysis and fiduciary duty. A global survey of 582 institutional investors and 750 retail investors sponsored by State Street Global Advisors found that investors want companies to explicitly identify environmental, social and governance (ESG) drivers that affect financial performance, yet 60 percent of those surveyed felt that industry standards for measuring and reporting ESG performance were a barrier to implementing the new priorities.[vii]

There now is a strong business case for increased transparency regarding corporate investment in human capital. In an analysis of the state of disclosure at the 890 largest publicly traded US companies, JUST Capital found that companies that publicly disclosed their career development policies had a return on equity that was 1.4 percentage points higher than non-disclosers. Companies that disclosed a paid parental leave policy had a return on equity advantage of 2.2 percentage points.[viii]

In short, workers as well as investors are being shortchanged by outdated accounting and reporting standards and practices.

ABOUT THE COALITION FOR INCLUSIVE CAPITALISM AND THE EMBANKMENT PROJECT FOR INCLUSIVE CAPITALISM ("EPIC")

The Coalition for Inclusive Capitalism (the Coalition) is a global not-for-profit organization that works with leaders across business, government and civil society in their efforts to make capitalism more dynamic, sustainable, inclusive and trusted.[ix] To address this challenge, the Coalition has spearheaded a five-year effort to bring together renowned business leaders as well as the world's largest and most influential asset owners, asset managers and corporations to positively influence the future of capitalism.

In 2017, the Coalition, together with EY, launched the Embankment Project for Inclusive Capitalism (EPIC), which was founded on a simple idea: In order for society and economies to thrive, business needs to focus not only on financial accounting, but also account for their outcomes on consumers, employees, communities and the environment.

EPIC was a unique, 18-month business-led effort to develop a framework and identify meaningful metrics to report on long-term and inclusive value creation activities that heretofore have not been captured on traditional financial statements. This type of measurement and reporting, while steeped in discrete technical issues, affect a broad range of stakeholders, including customers, employees, suppliers, communities and shareholders.[x]

EPIC participants included over 31 global business leaders across the investment value chain representing roughly $30 trillion of assets under management and almost two million employees (Figure 1) and included the following elements:

- Nine global companies: Aetna, BASF, DowDuPont, Ecolab, Johnson & Johnson, Nestlé, Novartis, PepsiCo and Unilever
- Eleven asset managers, including BlackRock, Fidelity Investments, J.P. Morgan, Vanguard, State Street Global Advisors, Amundi and Schroeders
- Eleven asset owners, including MetLife, CalPERS, Canada Pension Plan Investment Board and the Government Pension Investment Fund of Japan.

In addition, an advisory board of distinguished academics and business and policy professionals provided additional expertise and a fuller ecosystems perspective to the project (Figure 2).

Figure 1: EPIC participants

Figure 2: EPIC Advisory Council

Daryl Brewster, CECP
Paul Druckman, Financial Reporting Council
Robert Eccles, University of Oxford
Richard Howitt, International Integrated Reporting Council
Martin Lipton, Wachtell, Lipton, Rosen & Katz
Colin Mayer, University of Oxford
Barry Melancon, Association of International Certified Professional Accountants, American Institute of CPAs
Andy Neely, University of Cambridge
Adam S. Posen, Peterson Institute for International Economics
Dov Seidman, LRN
George Serafeim, Harvard Business School
Jeffrey Sonnenfeld, Yale University
Robin J. Stalker, Individual capacity
Laura Tyson, University of California
Sarah Williamson, FCLTGlobal

EPIC's aim was to agree on a set of methodologically sound value drivers and metrics that reflect what actually influence business and investment decisions. In other words, EPIC relied on the expertise and interests of all its participants in the investment value chain to determine which pre-financial metrics are valuable to investors in making investment decisions. Balancing pragmatism and materiality, participants devoted a significant amount of time and effort to building consensus and defining value in a way that is useful for the entire investment chain. Participants collaboratively identified and focused on four core drivers of long-term financial value:

1. Human capital/talent
2. Innovation
3. Corporate governance
4. Society and environment

These efforts resulted in an open-source framework and an initial set of metrics to aid in the standardization of data collection and reporting, but participants also recognized the need to be flexible enough to allow for companies to communicate their own unique long-term story. It should be noted that EPIC dealt with metrics for the environment within the context of the UNSDGs and the Task Force for Climate Related Financial Disclosure ("TCFD"). The focus of this paper is on EPIC's work on human capital and talent only. The other value drivers and the metrics behind them will be dealt with pursuant to further work by the Coalition, EY and industry participants.

HUMAN CAPITAL METRICS

EPIC participants agreed that employees are a major component of company's ability to create long-term value. At their best, employees implement the company's strategy, apply their skills to help the business navigate disruption and bring new ideas to the table. In short, workers help build a company's long-term value, and this valuable contribution should be better measured and reported. To tackle this challenge, EPIC formed the Human Capital Working Group to share experience and insights, identify needs and deliberate on strategy. The goal was to develop the tools and data to more effectively capture the contribution of workers to long-term value creation.

Participants concluded that there was a need for better metrics and disclosure in three key areas related to human capital where a company's actions could influence its long-term prospects:

1. **Human capital deployment (HCD):** Participants outlined a series of metrics across five dimensions that offer a clearer picture of how effectively companies deploy and manage their human capital. The metrics include voluntary turnover compared to overall turnover and the diversity breakdown at all levels of the company.
2. **Organizational culture:** It is difficult to get hard data around culture, so participants created a standardized survey that companies could use to gauge employee feedback on their company culture. Survey questions include, "Is it clear to me how my work contributes to our stated purpose?" and "Do I receive timely feedback that strengthens my performance?"
3. **Employee health:** Although undervalued, health is everyone's business. Therefore, participants proposed metrics about how companies are helping their employees manage their health. One such metric is the percentage of employees participating in 'best

practice' health and wellbeing programs that help to reduce absenteeism and improve productivity.

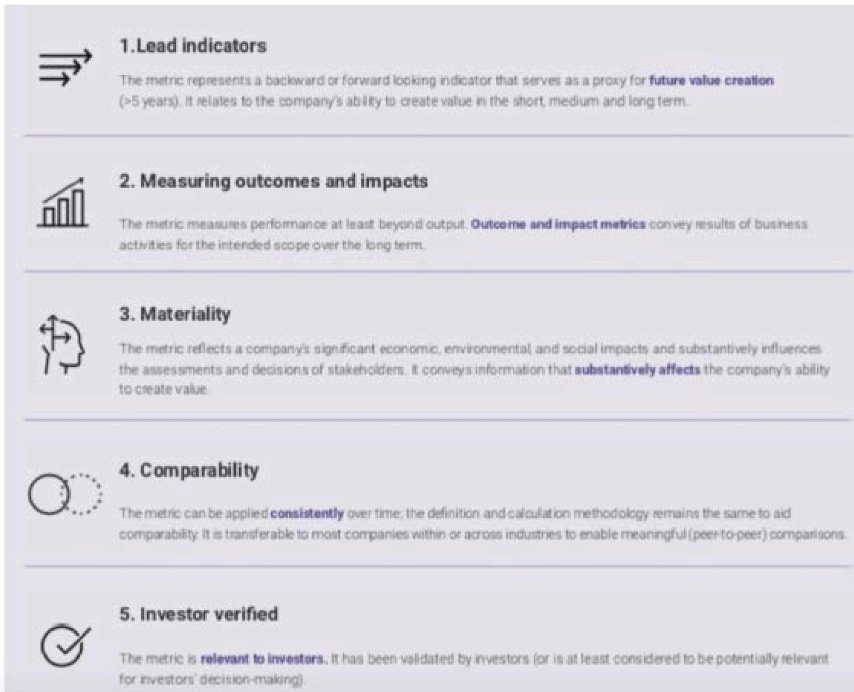
The most progress by EPIC on human capital/talent was made on the HCD component, which will be the focus of the rest of this paper.[xi]

Current HCD disclosure practices vary by company and geography and are heavily influenced by regulators (Figure 3). For example, International Financial Reporting Standards (primarily used outside of the United States) require the disclosure of total costs relating to employee salaries and benefits along with data relating to gender, pay and workforce composition, whereas the US's Generally Accepted Accounting Practices do not require such disclosures. Companies also tend to disclose information in highly variable narrative form in annual reports, Form 10-Ks, and other publications, as opposed to using standardized tables, charts or metrics.

Figure 3: Regulations drive human capital deployment disclosures

EPIC participants' experience and research and the Coalition's one-on-one meetings with mainstream portfolio managers indicate that investors feel that existing HCD disclosure standards and practices are not sufficient. Many fundamental investors (those that assess the company's true equity value in relation to its market price) try to incorporate HCD data in their analysis, but given the limited data currently disclosed, they have primarily relied on assumptions or have used methods such as web scrapping to identify signals on how companies manage their human capital. Quantitative investors (those that rely on data to drive investment decisions) said they are willing to investigate the utility new HCD metrics. However, without consistent, high-quality, comparable data, both classes of investors find it difficult to systematically incorporate HCD data into company valuation and investment decisions. In addition, to be compelling, such indicators need to be leading indicators (i.e., have predictive value), measure impacts not just inputs and be material to a company's value (Figure 4).

Figure 4: Five criteria for EPIC metrics



With these criteria in mind, there are five broad categories and a range of indicators that EPIC concluded are helpful in explaining a company’s approach to HCD in the context of long-term value creation.

1. **Workforce costs** (essentially, the total amount of wages, bonuses and pension benefits of *all* employees). This category reveals the basic cost of deploying human capital.
2. **Attraction, recruitment and turnover** (including the number of new hires, voluntary and involuntary separations, and recruitment costs). Combining recruitment costs with turnover allows investors to ascertain the extent to which a company is losing people and the costs of unwanted or excess turnover. Capturing recruitment costs also quantifies part of the cost of deploying human capital.
3. **Workforce composition and diversity** (including employee profiles, such as age, gender, race, disability and LGBT+ identification). This category also looks at modes of employment (e.g., part-time versus full-time labor), departmental variation and the diversity of the leadership as measured against the organization’s diversity strategy.
4. **Training, learning and development** (including total training days and types and costs per full-time equivalent). This category provides a clear indication of the company’s investment in preserving the value it has created as well as developing future revenue streams. There is value in tying investments in employee development and retention to delivering business results. Capturing these costs or investments in the future identifies a part of the associated cost of deploying human capital.
5. **Engagement and wellbeing** (including surveys revealing employees’ attitudes about work and their companies, including notions of purpose and well-being)**.** Feedback from

the financial community suggests that there is less trust in engagement data, although it conceded this is the best data point available for revealing the state of the relationship between a company and its people.

For these metrics to work across the financial system, each company should determine which metrics within these five dimensions are most material to its HCD story and include those items in its disclosure. (For example, the applicability of various HCD metrics will vary by industry sector.[xii]) When not able to disclose metrics in a given category, companies should provide a rationale for the exclusion and consider providing other information deemed relevant to the company.

IMPLICATIONS FOR ORGANIZATIONAL PERFORMANCE

To better understand and measure the relationship between HCD reporting and organizational performance, EPIC participants collaborated with Dr. Anthony Hesketh, a UK-based tenured academic at Lancaster University Management School. Hesketh's prior collaboration with EY on developing a new evaluation and auditing instrument based on his Valuing your Talent framework and his work on developing an equation for calculating the return on invested talent (ROIT) were very salient to EPIC's endeavor to measure long-term value creation.[xiii]

Hesketh, with the support of the EPIC Human Capital Working Group, conducted quantitative and qualitative research on the reporting of human capital metrics of companies in the S&P 500, FTSE 100 and Fortune 100 between 2012 and 2017.[xiv] The quantitative analysis included reviewing and codifying data from over 1,500 corporate documents, including income statements, shareholder proxy statements, corporate social responsibility reports and other investor relations materials. This work helped the EPIC team establish the relative maturity (i.e., breadth and depth) of HCD reporting and ascertain the level of detail, type and quality of data available. Qualitative research focused on narrative analysis of annual reports, Form 10-Ks, proxy statements and other investor relations materials and how corporate management communicates to investors about the role that workers play in realizing a company's strategy. Then, using the Human Capital Disclosure Index developed previously by Hesketh and endorsed by EPIC collaborators, Human Capital Working Group modeled the relationship between companies' financial performance and their human capital disclosure practices.[xv]

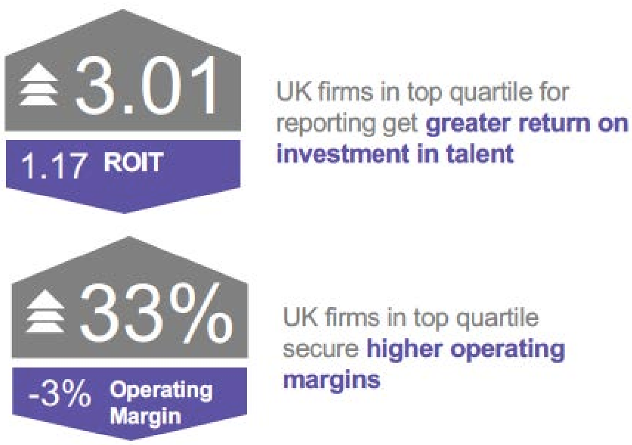
The EPIC research produced a number of key findings:

1. **Organizations that disclose HCD data tend to perform better than organizations that do not.** Of the 75 companies in the S&P 500 that consistently disclosed their total human capital costs between 2012 and 2017, 60 percent were in the top quintile in terms of risk-adjusted returns and means excess returns—both of which are asset management industry-standard metrics. Moreover, these companies were disproportionately underrepresented in the bottom quintile.
2. **The deeper the disclosures, the greater the economic returns generated by employees.** The analysis established that an organization's financial performance tends to increase in step with its human capital reporting intensity.
3. **HCD disclosures tend to obtain a higher ROIT and, thus, demonstrate higher worker productivity.** Looking at the UK market, the research found that the top HCD

reporting companies had an ROIT of 3.01, while companies that do not disclose HCD had a ROIT of 1.17. Top HCD disclosing companies in the UK secured operating margins that were 33 percent higher on average than non-disclosing companies (Figure 5). Even in the US, where HCD disclosure is less extensive, top-quartile reporting companies achieved an ROIT of $2.09 for every dollar invested compared to $1.87 for those in the bottom quartile of disclosers.

4. HCD disclosers tend to focus on long-term value creation.
5. Companies that disclose in full their human capital costs obtain, on average, higher levels of operating margin and retain more earnings to reinvest. Non-disclosers secure greater returns on equity, but they also carry significantly higher levels of debt.
6. More advanced HCD disclosers let their numbers do the talking. EPIC participants evaluated recent developments in corporate reporting and found that companies that are 'low human capital disclosers' use three times more narrative observations in their publications than top HCD reporting companies. Also, companies show a preference for disclosing data in a narrative format, and when companies rely on this approach as opposed to quantitative metrics, their focus is operational rather than strategic.

Figure 5: Companies that disclose more about their human capital show higher productivity



The EPIC research produced two other important findings. First, incomplete disclosures about human capital raises material questions about the completeness of a company's stated value**.** This finding is driving regulator interest (see next section). Second, the potential benefits of greater human capital disclosures far outweigh the costs. The HCD metrics put forth by the EPIC project are material, efficient, comparable and flexible. Leading auditors indicate that the incremental cost of reporting HCD metrics would be minimal (many companies already track this information internally). In addition, modeling revealed that HCD disclosure costs are significantly lower than the anticipated economic returns—which the EPIC team had conservatively estimated—gained from tracking the metrics, which generate a better understanding of the business and more effective HCD.

In sum, while EPIC did not establish a causal relationship between HCD disclosure and organizational performance, the 30-plus global business leaders and companies participating in EPIC supported the conclusion that well-run companies that are confident enough to make HCD disclosures may be better placed to make financially accretive management interventions—a material interest of asset managers and owners. If aggregated at a national level, more accurate and transparent HCD could have substantial, positive impacts for workers as well as the environment, communities, innovation and economic output, and this should be of great interest to policymakers.

FROM THEORY TO REALITY: GOVERNMENT, PRIVATE SECTOR AND ALLIED EFFORTS

The results from EPIC were made public at the Coalition's October 2018 Conference on Inclusive Capitalism in Washington, DC. A full-page public statement of support for was subsequently published in the *Wall Street Journal* on November 16, 2018 (Figure 6). The project has since attracted extensive media attention, corporate and investment manager traction, and policymaker interest.

Business leaders unite to advance long-term value measures

The health of corporations and financial markets - and public trust in both - is critical to economic growth. Our collective future strongly depends on vibrant and sustainable capital markets, and market participants have a role to ensure long-term value creation that can benefit all.

Today, a company's value is increasingly reflected not just in its short-term financial performance, but also by intangible assets such as intellectual property, talent, brand and innovation, as well as impacts on society and the environment, that are not fully captured by traditional financial statements.

Eighteen months ago, the Coalition for Inclusive Capitalism and EY created the Embankment Project for Inclusive Capitalism (EPIC) around the simple belief that we are more likely to incentivize and create sustainable value over the long term if we can better identify, measure and articulate the actions which create that value. With the contribution of over 30 global business leaders, the project brought together a collection of participants with both market strength and diversity across the entire investment chain, representing $30 trillion of assets under management and almost 2 million employees.

Balancing pragmatism and materiality, our teams collaboratively identified and focused on four key value drivers of long-term, sustainable growth:

Talent:
the way companies manage their human capital when it comes to compensation and benefits; recruitment; training and development; diversity and inclusion; well-being and creating a purpose-driven culture of engagement

Innovation:
fulfilling unmet needs and maintaining focus on the end user during the innovation process and fostering trust in the organization

Society and Environment:
the impact on external stakeholders and communities by contributing to business-relevant social and environmental goals

Governance:
the effectiveness of the board in providing appropriate oversight, governance mechanisms to ensure board quality and independence, and the ability of leadership, in conjunction with the board, to develop and assess long-term strategy

In the report released today, available at EPIC-value.com, we outline several of these intangible assets and possible metrics for helping companies communicate their ability to generate long-term value to both investors and society as a whole. The metrics and the underlying methodology are designed to be flexible enough to allow companies to adapt them to their specific circumstances and long-term value narrative.

We recognize that more work needs to be done to capture the full range of corporate activities and assets that create long-term value and will continue to test the project results, as well as work with other like-mind initiatives, to continue this journey.

Ultimately, we believe that if the EPIC value drivers and associated narratives are reported by companies through applicable metrics, we will have a clearer understanding of how businesses create both long-term value and stable and inclusive economies. This would go a long way to improving trust and confidence in the capital markets.

Asset Owners
Allianz
The Allstate Corporation
ATP
CalSTRS
CalPERS
Canada Pension Plan Investment Board
The Guardian Life Insurance Company of America
MetLife
Washington State Investment Board

Asset Managers
Amundi Asset Management
Barings
BlackRock
Investec
J.P. Morgan Asset & Wealth Management
Neuberger Berman
Nuveen
Schroders
State Street Global Advisors
Vanguard

Companies
Aetna
BASF
DowDuPont
Ecolab
Johnson & Johnson
Nestle
Novartis
PepsiCo
Unilever

Figure 6: Wall Street Journal announcement

Investor Advisory Committee to the Securities and Exchange Commission

In March 2019, the SEC's Investor Advisory Committee held a public meeting to discuss disclosures on human capital management. During the proceedings, the significance of human capital was highlighted: "As the US transitions from being an economy based almost entirely on industrial production to one that is becoming increasingly based on technology and services, it becomes more and more relevant for our corporate disclosure system to evolve to include disclosure regarding intangible assets, such as intellectual property and human capital."

EPIC and the companies that were part of the project were cited as having a "pronounced interest in clear and comparable information about how companies approach [human capital management]." The committee noted that specific disclosures are worth consideration and recommended that the SEC study the topic of enhanced reporting of human capital management and incorporate it as a part of the commission's Disclosure Effectiveness Review.[xvi] Committee members then voted 14-6 in favor of a motion recommending that the SEC explore rulemaking around human capital management. Although formal rules are years away, this is real progress toward livening a debate about how we institute long-termism into the investment chain by reporting on intangibles.

House of Representatives Financial Services Committee

In May 2019, the House Financial Services Committee held a hearing to introduce legislation that would require all public companies to disclose human capital management metrics. Prior to the hearing, the committee's Director of Investor and Capital Markets Policy reached out to the Coalition to discuss which metrics should be in the bill, and during the hearing, multiple members cited EPIC and its underlying research establishing the materiality of human capital metrics to financial performance. The Human Capital Measurement Bill sets to amend the Securities Exchange Act of 1934 to require issuers to disclose information about human capital management in annual reports.

The metrics recommended by the SEC Investor Advisory Committee and the House Financial Services Committee align very closely with the EPIC framework (Figure 7).

Figure 7: Comparison of human capital reporting recommendations

EPIC Human Capital Metrics	IAC Recommendation to SEC	Human Capital Measurement Bill
Total Workforce Cost		
Turnover		
Annual Turnover (by region, gender)	✓	✓
Voluntary Turnover	✓	✓
Voluntary Turnover among High Performers		
Workforce Composition & Diversity (Gender, Orientation, etc.)		
Leadership Diversity	✓	✓
% of Management	✓	✓
% of Board of Director		✓
Ratio of Full-time to Part-time Employees	✓	✓
Training, Learning and Development		
Return on Invested Talent		✓
Total Annual training hours by employee	✓	✓
Total spend on training per employee		
Engagement & Wellbeing		
Engagement Index Score	✓	✓
Absenteeism rate as a % of total hours worked	✓	✓
Mental health wellbeing rate: # of lost days / year		

Private Sector and Allied Interest and Efforts

In its 2018 earnings call, Johnson & Johnson disclosed a number of EPIC human capital measurement metrics including diversity, training and employee turnover. State Street Global Advisors mentioned EPIC in its January 2018 proxy letter, explaining how the company will be focusing on corporate culture as one of many intangible value drivers in its invested companies. In the letter, State Street Global Advisors President and CEO Cyrus Taraporevala noted, "Investors and regulators are paying attention as well, as flawed corporate culture has resulted in high-profile cases of excessive risk-taking or unethical behaviors that negatively impact long term performance. The Embankment Project for Inclusive Capitalism, which we participated in, found that key issues aligned to corporate culture, such as human capital management, represent important areas for value creation going forward."

In addition, JUST Capital is demonstrating the business case for increased transparency and worker investment with its analyses of disclosure of workforce policies at publicly traded US companies. Of note, JUST Capital's effort seeks to cover frontline, contract and part-time workers as well as headquarters staff. The Coalition is forming a strategic partnership with JUST Capital to marry the EPIC metrics with JUST Capital's advanced survey work to better evaluate and rank companies.

> As a long-term investor in a dynamic world, CalPERS is excited about building on EPIC's work to strengthen our understanding of risks and opportunities in our portfolio. The work of EPIC underscores how important it is to investors to have enhanced reporting on topics, such as human capital, that can truly enable investors to understand how effectively a company is positioning itself for the long-term.
>
> *—Marcie Frost, CEO, CalPERS*

> We are witnessing a historic shift in our economies as more businesses derive greater value from intangible rather than tangible assets. Measuring these intangibles is both important and notoriously difficult. That is why we applaud the Coalition for Inclusive Capitalism for bringing together key stakeholders to begin the hard work of understanding how to incorporate intangibles such as innovation, talent, environmental, social and governance attributes into the valuation of companies.
>
> *—Ron O'Hanley, President and COO. State Street Corporation*

> As a global leader in healthcare committed to ensuring good health is within reach of everyone, everywhere, Johnson & Johnson is focused on creating long-term value for all of our stakeholders. We believe that both the mission of EPIC and its value drivers are closely aligned with the aspirations expressed in Our Credo. We have been proud to be part of the EPIC team over the past 18 months, and we remain committed to working with others to continue to drive positive change across the value chain.
>
> *—Alex Gorsky, Chairman and CEO, Johnson & Johnson*

Continuing the dialogue

There is a fierce urgency to answer the obvious problems of rising inequality and decreasing optimism in America. Capitalism can work better for workers as well as communities, consumers and investors. But this point of view and the ways to achieve a more inclusive capitalism remain hotly debated. For example, the Council of Institutional Investors pushed back the Business Roundtable August 2019 statement on the purpose of a corporation arguing that it undercuts notions of shareholder accountability. While the council acknowledged the importance of long-term value creation, it argued that this effort should be directed towards shareholders, adding, "Accountability to everyone means accountability to no one."[xvii]

EPIC showed that a focus on workers is not a side project or "nice thing to do," but of material interest to company management, asset managers and owners, and policymakers. Technical issues around accounting and reporting have big implications for incentives and outcomes, and standardizing data collection and disclosure is a cornerstone to improving human capital management, making the American economy more robust and inclusive, and bolstering the position of the American worker.

EPIC demonstrated a bottoms-up effort of prominent business leaders supporting the need for standardized, comparable, and material metrics to use investment analysis in order to more fully reflect the long-term value that companies create. Beyond individual corporate efforts to voluntarily disclose metrics that help articulate their long-term strategy, the debate continues in the business, investor, and policy communities about whether the disclosure of pre-financial information should be mandated, if there should be some kind of standard or if solutions should be left to the market. The Coalition and EPIC participants engaged in the Oxford Union Debate that aired in December 2018 to deliberate on the role of the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) in mandating disclosure of non-financial material. Opponents note that there is a lack of a consensus on what should be reported and difficulties in developing quantitative metrics. They also worry that the expertise of the FASB and IASB in setting financial accounting standards may not translate into nonfinancial standards. There also are questions about whether nonfinancial information would have the same credibility and utility as financial information and whether a mandate or standard would deliver better information or result in corporate "greenwashing."[xviii]

More work needs to be done and the Coalition and its partners will remain focused on identifying how better reporting on the contributions of workers to long-term value creation can be realized.

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[i] *Global Intangible Finance Tracker 2018 — An Annual Review of the World's Intangible Value*. Brand Finance, 2018, https://brandfinance.com/knowledge-centre/market-research/global-intangible-finance-tracker-gift-20181/.

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[iv] *Statement of the Purpose of a Corporation.* Business Roundtable, Aug. 2019, opportunity.businessroundtable.org/wp-content/uploads/2019/08/Business-Roundtable-Statement-on-the-Purpose-of-a-Corporation-with-Signatures.pdf.

[v] Fink, Larry. "A Sense of Purpose." BlackRock, Jan. 2018, www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter.

[vi] *Blackrock Investment Stewardship's Approach to Engagement on Human Capital Management*, BlackRock, 2018, www.blackrock.com/corporate/literature/publication/blk-commentary-engagement-on-human-capital.pdf.

[vii] Eccles, Robert and Mirtha Kapstrelli. *The Investing Enlightenment: How Principle and Pragmatism Can Create Sustainable Value through ESG*. State Street Corporation, 2017, www.statestreet.com/content/dam/statestreet/documents/Articles/The_Investing_Enlightenment.pdf.

[viii] *The Win-Win of JUST Jobs*. JUST Capital, Apr. 2019, https://justcapital.com/reports/the-win-win-of-just-jobs/.

[ix] More information about the Coalition is available at www.inc-cap.com.

[x] More information about EPIC and the full report are available at www.epic-value.com.
[xi] The EPIC Human Capital working group felt the distinction between human capital management (a common term of art) and human capital deployment was significant: They wanted to emphasize the strategic deployment of capital to invest in the workforce. This perspective highlights the role of corporate management, investment strategy and organizational capacity and is of particular interest to analysts and investors. The working group also concluded that the notion of employee engagement, while a useful indicator of a well-managed company, is not a key criterion when making an investment decision. Rather, employee engagement is one lever that companies use to deploy their human capital.
[xii] For sector-specific insights, see Chapter 6 of the EPIC report.
[xiii] See, for example, Hesketh, Anthony. *Managing the Value of Your Talent: A New Framework for Human Capital Management.* CIMA, 2014; and McMinn, Howard, and Harvey Lewis. *What Price Talent? Introducing a New Metric to Understand the Return on Investment from Talent.* Deloitte, 2014.
[xiv] FTSE 100 data covered the period from 2011 to 2107. US, UK, and Chinese companies were excluded from the Fortune 100 companies examined. Documents detailing EPIC's research methodology and findings can be obtained from the Coalition.
[xv] The HCDI was calculated using five core indicators defined in Hesketh's Valuing Your Talent work and endorsed by EPIC participants: human capital costs, turnover, training and development, workforce composition and engagement and culture. The rationale for the use of these variables is discussed at length in Hesketh (2014).
[xvi] See www.sec.gov/spotlight/investor-advisory-committee-2012/iac032819-investor-as-owner-subcommittee-recommendation.pdf. An archived webcast of the proceeding can be viewed here: www.sec.gov/video/webcast-archive-player.shtml?document_id=iac032819.
[xvii] *Council of Institutional Investors Responds to Business Roundtable Statement on Corporate Purpose*, Aug. 2019, www.cii.org/aug19_brt_response.
[xviii] The debate can be viewed at www.youtube.com/watch?v=IyzkKFgp6NU. For an outline of the issues at hand, see Eccles, Robert, "A Debate at The Oxford Union: Should FASB and IASB Set Standards for Nonfinancial Information?" *Forbes*, Nov. 3, 2018, www.forbes.com/sites/bobeccles/2018/11/03/a-debate-at-the-oxford-union-should-fasb-and-iasb-set-standards-for-nonfinancial-information.