



***THE FUTURE OF HUMAN CAPITAL FINANCIAL REPORTING: ISO
30414 AND WHAT IT MEANS FOR ACCOUNTANTS***

HERB RUBENSTEIN, JD, MPA, DSS





Host: Liz Briggson, CPA

Email: Liz@encoursa.com

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Presenter: Herb Rubenstein, JD, MPA, DSS
Herb Rubenstein Consulting
www.HerbRubenstein.com

Learning Objectives

- ❑ Learn the new human capital financial data collection and reporting standards included in ISO 30414
- ❑ Understand how human capital financial metrics are now “material” to the investor community and general public
- ❑ Understand how human capital practices and reporting standards are forming the basis for new services offered by the accounting profession
- ❑ Learn key financial accounting metrics regarding human capital reporting
- ❑ Understand the benefits your firm and your clients will obtain by following understanding ISO 30414

The background features a series of overlapping, semi-transparent blue triangles and polygons of various shades, creating a modern, abstract geometric pattern. The colors range from light sky blue to a deep navy blue.

***The Future of Human Capital
Financial Reporting:
ISO 30414 and What It Means For
Accountants***

Herb Rubenstein, JD, MPA, DSS,

ISO 30414

- ▶ Overview - 2019 Passed
- ▶ New Human Capital Reporting Standard
- ▶ Voluntary, Internal vs. External Reporting
- ▶ Now Global
- ▶ Effort defeated at the US level in 2017
- ▶ Creates huge business opportunities for Accountants

Materiality - The Key Driver

- ▶ Research shows human capital financial capital and management of human resources drive stock prices
 - ▶ Turnover
 - ▶ Training dollars spent
 - ▶ CEO to Average Pay Ratios - City of
 - ▶ Succession Planning
 - ▶ Employee Morale / Engagement
 - ▶ So investors want these numbers

Average Worker Pay to CEO Pay

- ▶ Currently 287:1 (Americans for Tax Fairness)
- ▶ Dodd Frank and the Consumer Protection Act required large companies to publish this number annually
- ▶ Once published, taxing authorities use this number to create a new tax
- ▶ Portland, Oregon in 2016 surtax on companies that “operate within the city” and have a greater than 100 to 1 ratio
- ▶ The tax goes up at the 250:1 level.
- ▶ Portland collected 4m on this tax in 2019, other cities to follow and could be national tax law depending on the election
- ▶ Now, is this a future accounting issue????

Polling Question Number One

▶ See question

Predictive Analytics

- ▶ Within a range, and with some constraints, stock prices relative to competitors can be accurately predicted based on human capital and sustainability-oriented metrics - See: McBassi, *et al.*, ***Good Company: Business Success In The Worthiness Era (Berrett - Koehler)***
- ▶ Other empirical studies support this basic conclusion

Standards and Elements of Reporting

- ▶ ISO 30414 creates voluntary standards by which companies will measure and report (either internally only or publicly also) human capital financial data
- ▶ Accountants and their clients can benefit from knowing the standards and the elements of reporting called for by ISO 30414
- ▶ In the future, failure to report human capital financial data will be the basis of lawsuits since it will be deemed by a court “material”

Internal vs. External Reporting

- ▶ Those who set “standards” recognize that if a company does not measure human capital performance, the company will not be as well managed as it could be - internal reporting
- ▶ Collecting and reporting data internally is recognized as a very useful exercise
- ▶ Some data, however, is so valuable to investors that ISO 30414 calls for them to be reported externally (publicly)

Key Reporting Elements (Slide 1 of 2)

- ▶ Workplace injuries
- ▶ Turnover rates
- ▶ Succession planning metrics
- ▶ Organizational health
- ▶ Diversity metrics
- ▶ Labor availability
- ▶ Compensation
- ▶ Employee engagement

Basic Reporting Elements (Con't)

- ▶ Leadership metrics
- ▶ Recruiting and mobility of labor and management
- ▶ Skills and capabilities of current workforce
- ▶ Productivity measures
- ▶ Ethics and Compliance measures
- ▶ Employee satisfaction

Reporting Framework - Three Levels

- ▶ Voluntary for all companies, nonprofits, educational institutions, and government agencies
- ▶ Some metrics should be reported only *internally*
- ▶ Some metrics should also be reported *externally*
- ▶ *Also depends on size of company*
- ▶ Theme - when you report something internally this can help improve the management of human resources, like accident rates
- ▶ Job turnover example-100 year-old company publicly traded company... 7% for 98 years, then 18%, then 22%, would investors want to know this?

Polling Question Number Two

▶ See question

Conceptual Framework for Human Capital Financial Reporting

- ▶ HR reports 6% annual turnover of employees
- ▶ CEO asks, “How much does that cost us?” - HR says, “We don’t know.” (The money is in the recruiting and hiring budgets.)
- ▶ Accountants come in and say “We can figure it out.”
- ▶ HR clout in company goes down, Accountants’ goes up
- ▶ CEO gets answer, and then asks “What is the benchmark of turnover rates in our industry sector and geographic sector?”
- ▶ Accountants say, “I don’t know.”
- ▶ Consultants say “We can figure it out
- ▶ Turning HR numbers into meaningful financial numbers is the wave of the future

Time Series Analysis of Human Capital Data

- ▶ Trends in companies on human capital data are very important in assessing how well a company is managed and can be expected to perform in the future
- ▶ Human capital financial reporting is now considered an essential element in risk analysis by the investment community

Different Levels of Compliance

- ▶ Level 1 - Audit of the human capital data collection system of business or not for profit - plus set of recommendations on what to collect, how to collect it, and how to insure it is accurate
- ▶ Level 2 - Structural transformation; new ways to collect, analyze, and use data
- ▶ Level 3 - Full sharing of data with employees and the public and allow them to analyze data

Polling Question Number Three

▶ See question

Ethics of ISO 30414

- ▶ Uncovers unethical human capital practices like:
 - ▶ Child labor
 - ▶ Payments below minimum wage
 - ▶ Physically, mentally, and environmentally unsafe working conditions
 - ▶ Wage discrimination based on race, ethnicity, gender
 - ▶ Consistently high accident rates
 - ▶ Promotes transparency over secrecy
 - ▶ Promotes analysis over the Ostrich strategy

Ethics of Human Capital Reporting

- ▶ Allows for comparisons of companies in ethically sensitive areas
- ▶ Allows investors to include ethics-based information to guide their investment decisions like socially responsible investing
- ▶ Requires accurate reporting and presentation of investment grade information

Business Opportunities for Accountants

- ▶ Audit human capital numbers (Assurance services)
- ▶ Help develop processes and internal controls to generate reasonable accurate numbers
- ▶ Should not affect independence since doing this work in the area of sustainability has been ruled not to
- ▶ Help predict when numbers are nor, or regarding numbers to be created, will likely not be accurate (anticipatory ethics)

Business Opportunities for Accountants (Con't)

- ▶ Create systems for collecting the data from employee surveys and provide necessary technology to clients to collect accurate data in real time
- ▶ Help supervise supply chain's collection and reporting of data
- ▶ Create intelligible reporting systems in summary and detailed formats

Business Opportunities for Accountants (Con't)

- ▶ Help establish budgets for clients in the area of human capital data collection, analysis, and reporting efforts
- ▶ Help develop correlation analysis between human capital metrics and output measures, including key performance indicators
- ▶ Help advise a client on how to integrate human capital data collection, analysis, and reporting with IT infrastructure for efficiency, reliability, accuracy and timeliness

Business Opportunities for Accountants (Con't)

- ▶ Help establish human capital reporting in your own accounting firm
- ▶ Write papers and help shape the future of human financial capital reporting - become better known
- ▶ Give talks, attend conferences and improve your own human capital reputation and brand
- ▶ Develop new human capital financial reporting oriented accounting services, measurement techniques, and advisory services

Business Opportunities for Accountants (Con't)

- ▶ Statistically link sustainability metrics and human capital financial metrics and correlate them with success of the organization and its challenges
- ▶ Do competitive analysis for your clients in the areas of human capital reporting and sustainability
- ▶ Teach a class as a guest lecturer or adjunct faculty member in these areas

Business Opportunities for Accountants (Con't)

- ▶ New sub-specialty and potential credentialing for accountants in human capital financial reporting -
- ▶ Potential for large, mid-market, and smaller companies - Expand business development efforts in this area
- ▶ Great potential for accountants in not for all segments of the marketplace with clients who want to develop accurate human capital data

Polling Question Number Four

▶ See question

Conclusion

- ▶ Exciting new area for accountants
- ▶ Will require becoming trained and investing in these new field
- ▶ HCR is becoming HC financial reporting and is becoming more and more “material”
- ▶ HC Financial Reporting - A source of comparative advantage for your firm and for your clients
- ▶ Start with your own organization in Human Capital Financial Reporting guided by ISO 30414

Contact Information

- ▶ Herb Rubenstein, JD, MPA, DSS
- ▶ herb@sbizgroup.com
- ▶ www.Herbrubenstein.com
- ▶ 303.910.7961