

Small state, big impact

The Professional Certificate in Sustainable Value of the Rhode Island Society of Certified Public Accountants (CPAs)

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About the author:

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Dr Kraten's teaching, consulting and research interests focus on the impact of intangible assets and contingent liabilities on the long-term valuations of projects and organisations. His interest in HR derives from his exploration of the human capital component of the Integrated Reporting framework.

Dr Kraten has earned a PhD in behavioral accounting from the University of Connecticut, a master's in public and private management from Yale University, and a bachelor's in public accounting from Baruch College of the City University of New York.

Rhode Island, the smallest of the 50 US states in geographic terms, has always wielded a big impact in business and the social sciences.

How big? The state was originally founded by Roger Williams as a renegade British colony in 1636, a community that broke away from the Puritans of Massachusetts to provide a haven of religious freedom. Williams himself later led attempts to abolish slavery in the American colonies, and to pay Native American tribes fair value for their land.

More than a century later, Rhode Island became the last of the 13 fledgling American states to ratify the federal Constitution, refusing to do so until receiving assurances that a Bill of Rights would be developed to protect the freedom and liberty of all American citizens. And during the 1970s, it led the global movement of environmental awareness by adopting the nickname Ocean State to reflect its Atlantic heritage.

In the twenty-first century, the Rhode Island Society of Certified Public Accountants (RISCPA) picked up the gauntlet of progressive thinking by developing a professional certificate programme in sustainability. Its financial professionals focused the programme's objectives on the development of practices that assess and optimise the impact of sustainability factors on the valuation of projects and organisations.

So how did the members of this professional certificate programme become aware of the Valuing your Talent (VyT) movement? And why did it find the intellectual content of the VyT website so valuable? The answers to these questions are consistent with the origins of the Rhode Island colony itself.

A valuation perspective

Since the establishment of their colony in the seventeenth century, Rhode Islanders have been focusing on the quantification of fair value. Beginning with Roger Williams' revolutionary insistence on providing fair compensation to native tribes on land purchases, financial specialists in the Ocean State have grappled with the challenge of valuing resources with indeterminate but significant worth.

More recently, the state's immediate proximity to the financial centres of Boston and New York City has produced a business community with noteworthy expertise in capital valuation practices. And its geographic site on the Atlantic Ocean has encouraged a global perspective, with significant immigration flows from Europe and other continents.

These historical factors compelled the RISCPA to approach the topic of sustainability from a financial valuation perspective. Thus, instead of

simply developing a generic certificate programme in sustainability, the Society focused on serving financial professionals who are concerned about the long-term sustainable value of their organisations, their communities and their societies.

But how did this professional certificate programme in sustainable value achieve its objectives? And how did it find and implement the VyT website resources in a manner that served its financial professionals? These goals were met through a fortuitous convergence of factors that spanned the globe.

Integrated Reporting framework

After searching through numerous frameworks for developing quantitative models of sustainable value, the RISCPA decided to focus on the Integrated Reporting <IR> framework of the International Integrated Reporting Council (IIRC). This framework defines six different types of resources (or 'capitals') that must be invested in order to operate any entity.

Three of these capitals are financial, manufactured and intellectual in nature. They are usually capitalised as assets on the balance sheets of organisations, but they are not necessarily valued by accountants at their fair or market values.

And three of the capitals are human, social and relationship, and natural in nature. They usually do not appear on the balance sheets of organisations, and yet in many entities they represent the majority of the firms' enterprise values.

All of these capitals are affected by the operations of the organisations. Some, such as manufactured and natural capitals, are usually depleted over time and thus must be replaced by new investments of financial capital. Others, such as intellectual and human capitals, are often strengthened over time because of the beneficial experiential effects of learning curves.

<IR> describes the operations of organisations in four steps. Inputs are utilised to conduct business activities, which produce outputs that are sold as products and services in the short term. They also produce outcomes, which represent changes in the values of the six capitals in the long term.

These four steps of the IIRC's operational model are the components that led the RISCPA from the <IR> framework to the VyT framework. But why did the Society believe that it needed a second framework?

A pragmatic implementation tool

The <IR> framework provides an overall perspective of the processes that can be utilised to assess the six capitals of organisations. Thus, it is particularly suitable for use with projects that involve trade-offs between two or more capitals. For example, a global energy company might employ this framework to assess whether the financial capital to be generated from a coal mining project justifies the pollution or depletion of a region's natural capital.

But sometimes a project, or an entire organisation, is focused on a single category of capital. Sometimes, in other words, a manager or investor is attempting to optimise the value of a single type of resource. Under such circumstances, even though the <IR> framework still provides a comprehensive understanding of value, a more specialised framework must be employed for focused implementation purposes.

And that is what led the RISCPA to embrace the VyT framework. Although it indeed provides a freestanding valuation model within the discipline of HR management, it also serves as a pragmatic implementation tool for the human capital component of the IIRC's framework. In fact, the four foundational levels of the VyT framework – input measures, activities measures, outputs, and outcomes – correspond precisely to the four steps of the IIRC's operational model.

Furthermore, the detailed measures and factors that illustrate each VyT level provide a depth of guidance that extends beyond the information in the wider <IR> framework. For instance, the VyT recommendation to focus on regulatory compliance at the input level, while focusing on innovation, agility and resilience at the outcomes level, reminds managers of human capital (that is, of human resources) to establish different objectives for different functions – and, accordingly, to utilise different metrics for those different functions.

Save the Blue Frog

For a specific example of a case that was utilised as a discussion document in the professional certificate programme, please visit *Save the Blue Frog*.¹ The case describes a fictional global energy company that wins an ostensibly profitable contract to construct and then operate a hydro-electric power plant over a waterfall in an emerging African nation.

After the contract is awarded to the firm, but before the commencement of construction, several unanticipated problems and challenges are uncovered by various stakeholders. Each of these concerns threatens to harm the project by inflicting a negative impact on the valuation model, and thus potentially places the project's long-term financial sustainability (that is, its overall economic viability) at risk.

One concern is the discovery of an endangered species known as the blue frog. The amphibian is discovered on the site of the proposed construction project; it might become extinct if the development of the project destroys its native habitat. One solution, proposed and then assessed by the candidates of the certificate programme, involves the employment of zoologists by the energy firm to monitor the species and to direct ameliorative measures if the blue frog is threatened by the construction process.

But how should an organisation with no zoological experience employ zoologists? And how should it define and measure the value that would be created by the employment of such talent? The Valuing your Talent movement represents a worthy resource for addressing such challenges, with its VyT framework providing guidance regarding the input measures for such human talent.

After reviewing the videos, research papers, case studies and other guidance on the VyT website, the certificate programme candidates adopted a 12-page white paper entitled *Using Your People Measures*² as a primary blueprint for planning purposes. That particular paper provides an extremely pragmatic, step-by-step set of guidance that carries managers through the following five stages of defining and measuring the value of human capital: (1) data-gathering, (2) exploratory analysis, (3) data-modelling, (4) causal analysis, and (5) value analysis.

¹ See <http://www.savethebluefrog.com>

² See http://www.valuingyourtalent.com/media/Guide%20on%20using%20your%20people%20measures_tcm1044-6784.pdf.

Conclusions

So how did the RISCPA evaluate its use of the VyT framework? In retrospect, did the framework accomplish its purpose? And did the RISCPA consider any alternative models that might have been available to it?

The evaluation process involved an assessment by the 16 certificate candidates who began their year-long set of educational and experiential activities in April 2016. These candidates included certified public accountants, financial advisers, economic modelling experts, investment specialists, innovation managers, and university professors in the United States, Asia and South Africa. The certificate programme director and other supporting specialists reviewed their assessment output and concluded that they satisfactorily applied the VyT content to the Blue Frog case.

Furthermore, these professionals also concluded that no other information resource was available to provide the unique set of information that is presented on the VyT website. This site content represents the output of a partnership between the global accounting association CIMA and the global personnel and development institute the CIPD, along with several other contributors. The site's VyT framework is uniquely positioned to provide a bridge between the operational model of the IIRC framework and the specific and detailed implementation guidance of reports such as *Using Your People Measures*.

In other words, in the realm of talent valuation, the RISCPA was unable to identify any other framework that simultaneously addresses the needs of the financial and human resource professions, while helping stakeholders to bridge the gap between broad conceptual frameworks and pragmatically focused action plans. The Society members found that the VyT content met these challenges in a detailed, comprehensive and accessible manner.

These outcomes led the RISCPA to an obvious conclusion. When an organisation faces the challenge of valuing its talent, its obvious choice for professional guidance can be found at valuingyourtalent.com

About Valuing your Talent

Valuing your Talent is a partnership between CIMA and the CIPD; designed to help organisations better measure and report on their human capital data. For more information visit www.valuingyourtalent.com

