

Human Resources

HR: the future analyst link?

By Craig Donaldson

ANALYSTS AND fund managers will become increasingly sophisticated in questioning boards and their company officers about human capital intangibles over the coming years, but it will be human capital experts who will need to drive innovation in this area – and more importantly, who will be required to decode such intangibles in a meaningful way.

Research has found that trends in human capital analysis will move strongly in the direction of analysts evaluating human capital management systems, according to Loretta O'Donnell, director of human capital consulting firm Research 7.

For instance, they will be questioning management on which are the key systems to manage within their specific context, she said. "Analysts will also be asking management about the ideal configuration of systems within their industry."

There are very different management systems required in, for example, a mining firm versus a healthcare/biotechnology firm, she said. "They both need key management systems for managing safety and occupational health, sustainable culture systems and for rewards and remuneration but with different emphases."

But for biotechnology firms, keeping good scientific staff is critical according to O'Donnell, so creating appropriate training and development for them is also significant. "For mining firms during a mining and resources boom and given the skills shortage, paying people appropriate money and ensuring that safety is paramount has to inform all other management systems."

O'Donnell, who is also a lecturer at the University of NSW, said HR executives have traditionally been based in a different mode of viewing the world. "In general terms, financial analysts are looking at the tangibles which are easily quantified, while HR executives are looking at the intangibles and making qualitative human capital assessments of their firms."

O'Donnell has been conducting research on human capital management systems in conjunction with Carol Royal, a senior lecturer in the Faculty of Commerce and Economics at the University of NSW. Royal said research

on human capital metrics, such as employee engagement, are useful but often do not often translate directly to share price contribution.

The exception appears to be the Watson Wyatt Human Capital Index, according to Royal, which has demonstrated clear connections between superior human resource management practices and share price contributions.

“However, HR executives tend to lack a specific set of tools by which to systematically and convincingly communicate HR contributions to the markets,” she said.

It is important to define terms when looking at such issues, according to Royal. HR can be a function, which has specific tasks and activities, while human capital can be seen as a set of management systems, which can work in a particular configuration to execute the strategy of the firm, she said.

O’Donnell and Royal said there is still much work to be done in terms of clarifying human capital intangible assets and why they are really important, and how they can be communicated in ways which are rigorous and digestible by financial analysts.

8 August 2006