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Crunching HR's numbers is critical

By Melissa Yen

In the face of a global credit crunch, the need for rigorous human capital analysis is becoming more evident as HR is increasingly placed at the forefront of a company's financial value, research has found.

In coming to terms with the current global credit crunch, companies must focus their financial analysis on qualitative models as opposed to simple quantitative models or risk further downfall.

Fund managers and financial markets also need to think outside the square by analysing market performance based on qualitative information and not solely quantitative information, according to Carol Royal and Loretta O'Donnell, from the School of Organisation and Management at the Australian School of Business.

"The heart of the problem is that the real economy is based on real companies, real people, and their human capital and change management processes and systems. The real economy needs to be distinguished from the hyper-real economy, as represented by derivatives and other financial symbols," said Royal.

Hyper-reality occurs when representations of principal assets, such as earnings, debt proposals, quantitative models for debt securitisation or analysts' estimates, begin to reflect each other, and the outcome does not necessarily represent what is actually occurring in the underlying assets.

"What has come out of this particular crisis is the fact that we've got market-related credit crunch problems and what that's highlighted is issues of a

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Professor Ian Ramsay, from the University of Melbourne's Centre for Corporate Law and Securities Regulation

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hyper-real nature for financial markets where the qualitative, human capital or HR indicators are not being looked at in light of what they're doing in their professional life," she added.

Royal has conducted research into human capital and how it can be analysed from the perspective of financial markets, particularly company performance in the real economy as opposed to simply looking at ASX stock codes.

"Financial market players forget there is a disassociation between that stock code and the fact that that company has real people and human resources issues and change management practices and processes in place," said Royal.

For example, research released by the University of Melbourne indicates that Australian company directors are in fact well aware of the importance of human capital analysis.

The research, which looks at how Australian directors balance the competing and sometimes conflicting interests of stakeholder groups such as employees, creditors and shareholders, found that 55 per cent of directors felt they were required to balance the interests of all stakeholders in order to serve the best interests of the company.

As a result, a mere 0.3 per cent of directors were shown to equate the best interests of the company with the short term interests of shareholders.

Furthermore, 27 per cent of directors reported tension between the company and its shareholders over the past year. Such tensions occurred mainly in the areas of the company's financial performance (60 per cent); proposed new business strategy (34 per cent) and proposed expenditure or investment (30 per cent).

Commenting on the research, Professor Ian Ramsay, the director of the University of Melbourne's Centre for

Corporate Law and Securities Regulation, said there may be less need to change the law of directors' duties to require directors to take into account the interests of defined groups of stakeholders other than shareholders.

According to Royal, companies and their management are impacted by certain drivers of sustainable human capital management and depend on external and internal influences that occur on a daily basis.

Such influences include historical trends, the institutional factors and competitor or product market changes but also the economic and financial environments in which organisations operate.

Changes to these as a result of the debt crisis could therefore be a problem for HR and management in general in delivering sustainable human capital practices.

"It is going to make some of them more costly, such as recruitment ... There're quite a lot of areas where we want to develop staff in terms of training and development and career progression and that requires funding and extra money," she said.

"If you have an economic or financial environment change, that will alter management's perceptions and beliefs about what types of strategies they need to adopt moving forward, directly impacting on internal factors such a career systems, training, performance management and rewards."

The need for HR to gain greater access to the CEO and senior management of organisations is essential, according to Royal.