

**Human Capital Workshop  
Bordeaux June 2016**

**The Use of Publicly Available Information for  
Human Capital Analysis: Case of Three Australian  
Companies**

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# The Value of Human Capital Reporting

for.....

Investors

Creditors

Customers

Employees

Suppliers

# The Purpose

To examine the extent to which  
**HUMAN CAPITAL**  
information is reported by Australian  
corporations to the public.

# A. Human Capital In HRM Literature

- In the new economy, a substantial proportion of value is created by **intangible assets** as opposed to traditional types of capital.
- **Human Capital** is a part of Intellectual Capital/Knowledge Capital Assets.

# A. Human Capital in HRM Literature

A strong link is thought to exist between companies that value investments in human capital or that seek to integrate the development of human capabilities in their strategic planning and organizational sustainability.

# A. Human Capital in HRM Literature

- The measurement of human capital assets is a precursor of communicating them to the public.
- Quantitative and more narrative and qualitative methods co-exist.
- Measurement is problematic and suggested frameworks need to be further tested in order to be effectively used by reporting practitioners.

## B. Human Capital in Accounting and Finance Literature

- The growing differences between market capitalization and book values
- The absence of intangible assets in financial statements (Lev and Zarowin, 1999).
- Accounting and financial analysis have gradually become less useful for decision makers.

## B. Human Capital in Accounting Literature

**Distinct characteristics of intangible assets pose certain valuation problems in accounting:**

Being embedded in physical assets, time delays on return on investment, not zero-sum in value, subjective value, many not saleable, difficult to have true market value, incomparable due to lack of markets, few property rights, perception of higher-risk investments, have both internal and external elements, costs can be chased, inventory calculation very hard, depreciation rate hard to be calculated (Hatipoglu, 2010).



## B. Human Capital in Finance Literature

- Financial analysts benefit from earnings multiples, discounted cash flow model and asset multiples in their analysis (Asquith, Mikhail, & Au, 2005).
- In order to make predictions of future earnings these models make use of financial data that are founded in annual reports or company announcements.
- Accounting data reports on past success and it falls short of representing the future earning potential of intellectual assets.
- Attributes of human capital like knowledge, skills and experience are not valued as assets in the balance sheets of companies.

# Comparison

HRM

Human  
Capital as a  
value creator

Soft Data

Accounting  
& Finance

Human  
Capital as a  
value creator

Hard Data

# Method of the Study

## Research Questions

- Do publicly listed Australian corporations go beyond the mandatory regulations in reporting of human capital?
- How much more than the mandatory regulations do these corporations communicate human capital information to the public?
- How valuable is this information for stakeholders in evaluating the future performance of corporations?

# Method of the Study

## Publicly Available Data

1. Construction of a «Mandatory Disclosure Index»
2. Variables of the model
3. Indicators emerging from data

# Drivers of Sustainable People Management Practices Royal (2000)

## External Influences

- Historical Trends
- Economic Environment
- Institutional Factors
- Technological Change
- Socio-cultural dimensions
- Labor Market

## HRM Capital Management Systems

- **Job characteristics** include competencies, management control, co-worker relations and power, decision making and leadership
- **Recruitment** defines the basis and selection criteria
- **Training** refers to main source and nature of training (e.g. internal/external training)
- **Career opportunities** include internal and external careers and employment security
- **Rewards** define the existence of fixed or variable per criteria for pay increases.
- **Professional identity and culture** define whether employees define themselves with the profession or the organization and the strong or weak cultures.

# Case Companies



Time Period : 1999-2004

# Results: Research Question 1

- Using the Mandatory Disclosure Index, analysis indicates that all case companies comply with the mandatory regulations and the ASX Corporate Governance Recommendations for the period 1999-2004 and
- They go beyond these mandatory requirements.

# Comparison among Cases

- ✓ Telstra
- ✓ NAB
- ✓ BHP Billiton



# Annual Reports & Sustainability Reports

## They Are Good For

- corporate strategy
- corporate governance
- restructuring programs
- community & env. performance
- occupational and health concerns (OH&S)
- economic performance

## They Lack

- Human Capital Specific Information

# The Future Performance

The future performance of an organization cannot be based only on the fulfillment of mandatory requirements ignoring other valuable indicators such as

**HUMAN CAPITAL.**

## Results: Reserach Question 2

How much more than the mandatory regulations do these corporations communicate human capital information to the public?

# Results: Research Question 2

Webcasts/Podcasts/  
Briefings of the Firms



Newspaper/Magazine  
Articles



Academic Sources

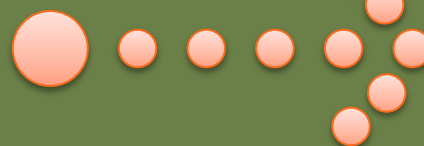


Websites of:



Australian Government and Local  
Regulatory Bodies; Activists,  
Unions, Local Communities;  
Industry Organizations,  
International Organizations

Human  
Capital  
Database



**Future  
Performance**

# BHP Billiton

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Human  
Capital  
Database

➤ Industrial  
Relations

➤ Employee  
Safety

**Future  
Performance**

# Results

- Cross-case analysis display differing levels of transparency among companies.
- Case companies have increasing levels of transparency between 1999-2004, which can be also associated with certain corporate crisis and challenges such as environmental crisis and corporate mergers.
- Creation, capturing and sharing of knowledge in an organizational setting requires dedication and extensive effort on behalf of management.

**Those companies that measure and report their human capital will have better control of this valuable asset, which will aid them in making more informed decisions, such as during strategy formulation (Grant, 1991), strategy execution (Kaplan & Norton, 1996) and investment decisions.**

## **REPORTING OF HUMAN CAPITAL**

# Human Capital Analysis

- Documents other than the annual and sustainability reports provide valuable human capital information that can be utilized by investors and other stakeholders.
  - A Human Capital database can be constructed and upgraded for longitudinal investigations and analysis.
  - Corporations can consider increased transparency around **Human Capital** indicators used in this research.

# Other Human Capital Indicators

## Sustainable Human Resource Practices

- Planned HRM practices that intend to enable achievement of
  - Financial
  - Social
  - Ecological goals and
- Reproducing the Human Capital base



# Company Rhetoric vs Reality

## Rhetoric

- Annual Reports
- Sustainability Reports
- Website
- Analyst Briefings

## Reality

- Externally validated reports
- Other Secondary Research



# How Can Human Capital Analysis Results Used?

- The analysis creates soft qualitative yet valuable data
- When this rich data is analyzed using theory based models and the results are applied together with financial analysis it can aid analysts to better predict future performance of corporations.

# Limitations

- As much as the Human Capital Analysis is a valuable tool, initially it is very much time consuming and labor intensive process.
- The nature of the data which is qualitative in nature and dispersed over multiple channels requires systematic collection and analysis techniques.

**INFORMATION ASSYMETRY**

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Thank You For Listening