Knowledge Acquisition in Investment Banking: Opportunities for HR Professionals ©

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Abstract

This paper examines knowledge management practices within the investment banking sector, using two international banking institutions as examples, focusing on the work of key professionals - securities analysts and equity traders. It finds a knowledge gap which is partly historical, as the professional licencing requirements of securities analysts has not, to date, included specific skill development in the qualitative forms of data analysis required for systematic human capital analysis. This is a component (2000-2005) of a larger study conducted from 1996-2005 in investment banks in Australia, Asia and the UK. The authors use a three phase model of professional knowledge acquisition as a basis for highlighting new organisational development opportunities for HR professionals: bridging the human capital knowledge acquisition gap lobbying regulators to make changes in the training underpinning the licensing of securities analysts; accessing formal university courses in qualitative analysis, using professional associations for non-technical, non-traditional, strategic forms of knowledge acquisition and, finally, creating performance management systems to embed this form of knowledge acquisition into the work of securities analysts.

KEY WORDS: human capital analysis, knowledge acquisition, securities analysis, investment banking, professional development.

Introduction

The significant role of human capital as a driver of value in firms, is not well understood by many professionals, including securities analysts, equity traders and their clients, and yet, as the human capital literature (Bassi and McMurrer, 2007; Youndt et al, 2004; Mayo, 2001) suggest, human capital can be a lead indicator of potential future firm value.

This article finds a knowledge gap in professional securities analysts and equity traders in undertaking their roles in financial markets. The theoretical knowledge gap was identified in a training needs analysis, stage 1. This process highlights the need for increasing amounts of formal training to enhance understanding of the importance of intangible factors and their contribution to future firm value in investment recommendations. Furthermore, This finding implies opportunities for potential new roles which can be undertaken by the human resource (HR) function to use a HR development (HRD) approach to bridge this knowledge gap. These potential new roles may have more general implications for role of HR management (HRM ) in the finance industry. We use an adaptation of Hodson and Sullivan’s (2002) three phase model of professional knowledge acquisition as a basis for highlighting new organizational development opportunities for HR professionals.
Professions are knowledge-based occupations which distinguish themselves by the type of knowledge they master. The knowledge base of a profession consists of three parts. The first part is theoretical knowledge, which is often acquired at a formal educational institution or through a formal training program or process. The second part is detailed practical information that can be applied to the service provided. The third part is the actual application of the knowledge base or the technique, (Hodson and Sullivan, 2002; Ellul, 1964). The role of HR professionals, HRM and HRD within organisations is to enhance the knowledge base of professions. This can entail a move through a four stage learning development process: a needs investigation, a design stage where objectives, goals and content are examined an implementation stage where formal or informal training occurs and an evaluation stage where the learning experience is assessed (see Figure 1). To this end, the four stages, as Delahaye (2000:13) states, ‘produce the energy that drives the basic requirements so that the organizational knowledge is constantly identified, disseminated and reviewed’. This paper focuses on Stages 1 and 2 of this model, as applied to two investment banking firms, with some reference to Stage 3. Stage 4 is the subject of further research.

Figure 1

Human capital is defined in the literature using several different constructs (Boedker, 2005; Marr, 2005). However, in this context we use Royal and O’Donnell’s (2005) definition of human capital as management systems which can have an impact on share price. This definition prioritizes the importance of distinguishing the relative value of human capital in executing firm strategy. This definition also assumes that human capital is manifested in a firm’s unique configuration of management systems such as: training and development systems, performance management, career planning and succession planning systems.

Our paper proposes that the theoretical knowledge acquisition of securities analysts and equity traders needs to be more systematically informed by HR professionals working in new, more proactive roles. These roles are necessary in order to bridge the theoretical knowledge gap so that formal training is more consistent with the expectations placed upon them by potential investors. For HR departments there are several implications of these potential new roles. In particular, as Figure 2 illustrates, a clearer focus on human capital analysis may change the relationship between the HR department, the securities analysts and corporate
regulators (such as ASIC and APRA). A position at such an interface is HR’s potential new role – bridging the knowledge gap in the professional knowledge base of securities analysts. In the network model of Figure 2, HR takes on the role of lobbyist for increased focus on qualitative research as part of the licensing regime for analysts, and thus becomes a more strategic player in the operations of investment banks.

Figure 2 here

Figure 3 illustrates the key themes, including training and development, relevant to broad human capital analysis.

Figure 3 here

Post-Enron, it is clear that the intangible drivers of a firm’s value are increasingly important in predicting its future performance. Even though knowledge and information comprise an increasingly large proportion of the total value of the firm (Roos et al, 2005), traditional accounting measures and traditional forms of financial analysis of firms do not always provide insights into this value growth area (Stitttle, 2004; Bontis et. al. 1999). Responses to the need for clearer intangible asset analysis include: Becker et al’s (2001) HR Scorecard, Ittner’s (2002) Value Creation Index. Mayo’s (2001) Human Capital Monitor, Boedker’s (2005) principles of intangible value, Edvinsson’s (1997) Skandia Navigator and Sveiby’s (1997) Intangible Assets Monitor, which all make an important contribution to this debate. Collectively, they indicate that tools other than traditional financial analysis tools are required for securities analysis to completely analyse the drivers of intangible value in listed firms. They also indicate the need for a change to the traditional investment analysis process to incorporate qualitative human capital data and insights.

There is a danger that the professional knowledge base of securities analysts and equity traders is limited by a classic performance management paradox. They are at risk of being “rewarded for A, while hoping for B” (Kerr, 1975). Securities analysts are rewarded internally for highly sophisticated and complex quantitative financial modelling, which is based on a firm’s past financial performance. Yet, potential investors, the clients of the bank, are hoping for clear insights into potential future financial performance of those same firms, which is more likely to be found in an analysis of the intangible assets, particularly human
capital (Pfau and Kay, 2002; Royal, 2004). Intangible assets cannot be readily modelled on a spreadsheet and need to be analysed using complementary qualitative research methods. This knowledge gap provides challenges and opportunities for the HR function within banks.

**Methods**

The empirical research (2000-2005) is drawn from a much larger study covering the period 1996–2005 in the global investment banking industry. The study was conducted at two local Australian affiliates of global investment banking organizations. Multiple units of analysis are important for examining the knowledge management practices in the investment banking sector. The multiple units of analysis included, the international organisational level, the affiliate level and a micro unit of analysis, which involved subsets or divisions of the establishment level of the global banking organizations. Semi-structured interviews with senior managers from the Equity Research Divisions and the Equities Divisions as well as the HR departments [more details needed, eg dates, numbers, how selected, etc] of the two international banks were adopted. The study employed a range of qualitative methodological techniques including: participant observation, semi-structured interviews and survey methodology [more details needed, as above]. The research also involved engaging in action research with proprietary traders, observing their trading decision-making processes, and discussing the process of these outcomes with the traders in real time. Discussions and observations were diarised in the form of a daily journal, describing some key trading decisions and the traders’ reflections on those decisions.

As part of this ongoing research project, job characteristics, position descriptions and training inventory data was collected from HR departments for securities analysts and equity traders of two investment banks during the period 2000 to 2005. The interview data covered some 60 security analysts, 30 equity traders, 20 senior management from the Equity Research Divisions and the Equities Divisions, and 12 human resources professionals of the two international banks.

**Acquiring Critical Knowledge**

The roles of securities analysts and investment managers are misunderstood by most investors. Their nominal function is to form investment recommendations or investment decisions about the buying and selling of publicly listed businesses. Most investors believe that their roles involve making an assessment of a business’ current and prospective financial
condition, using predominantly financial data collection techniques, financial modelling and other financial research tools. However, in fact, making investment recommendations and decisions about the acquisition or sale of a business also requires knowledge specific competencies in assessing the ‘value’ of human capital. Human capital analysis needs to be incorporated in the investment process are to formulate sound investment decisions.

Securities analysts are responsible for thorough research investigations into all aspects of the current and prospective financial condition of publicly listed companies and they provide an analysis of the findings in the form of a research report, which serves as a basis for making an investment recommendation (Royal and Althauser, 2003). Stock recommendations are made on a relative basis comparing a companies’ performance within a sector or industry and examinations should cover all pertinent publicly available information about the company and its business. Research on the company, industry, product or sector, and public statements by and interviews with executives of the company, its customers and suppliers are all included in the role of the analyst. Investment managers make decisions on the basis of these recommendations as well as those made by their own buy-side analysts as to which stock investments to buy or sell on behalf of investors.

The tasks of investment managers involve more than knowledge transfer (for more on such elements in knowledge management see Poon and Rowley, 2011). They include a sophisticated knowledge retrieval process, which is a continual cycle of data collecting on an industry or individual company. The data indicate that securities analysts require a broad view of the capability of management within firms in terms of their potential ability to execute the stated corporate strategy. The markets need to know whether there are management systems in place to underpin the corporate strategies as stated by the managers of listed firms. If not, then the firm is less likely to deliver future value compared to the firm that has the appropriate configuration of management systems. Financial and non-financial information is collected from customers, suppliers and management and processed by applying complex theoretical financial models and specialised expert knowledge. The output of the knowledge retrieval and transfer is a set of earnings estimates, stock recommendations and stock selection decisions.

The knowledge gap in the role of securities analysts and their professional development can be seen in the dominant mode of analytical tools used in the profession. Traditionally, the
primary source of knowledge and information used by securities analysts in forming their recommendations is financial data. This is consistent with the prominence of quantitatively driven financial analytical models such as the Capital Asset Pricing Model (CAPM) and its variations, as well as the significance of the analysis of the alpha and beta value of stocks, the measure of how changes in a share price correlate to overall movements in the share market as a whole (relative to market volatility) of a stock (ASX 2007; Brearley and Myers, 1984). Quantitative financial analysis of this kind is consistent with the qualifications, experience and skill set of most securities analysts in Australia and other developed economies.

Similarly, there are another group where there is a knowledge gap presented by the dominant mode of analytical tools that are used in their profession. This group are the equity traders. Equity traders are involved with the buying and selling of company stock. These are people who work for investment banking institutions in the equity division and hence tend to be agency traders ie stockbrokers who buy and sell on behalf of clients. However, these divisions also have proprietary equity traders who buy and sell for the trader's own profit or loss.

Evidence from the interview data with HR professionals in these investment banking organizations highlights the need for the HR function to be staffed with business people who can connect HR activities with value creation for the firm. This highlights an opportunity for HR professionals in these firms to demonstrate their commercialism and to articulate the knowledge gap in the securities analysis and equity trading process.

In particular, interview and action research data indicated that securities analysts need to be able to analyse the creation of intangible value within firms. Particularly in knowledge intensive firms, this includes an analysis of human capital in the value creation process. The data also indicate that it is important for securities analysts to understand how human capital within these listed firms will be positioned and resourced to add value in the future.

However, the case analyses indicate that, in order for securities analysts to systematically collect and analyse non-financial data including data on human capital, or for proprietary equity traders to buy and sell shares on the house account, these traditional quantitative techniques, used to assess the current and prospective financial condition of firms, need to be complemented by qualitative research techniques. Current analytical and trading techniques
rely heavily on the analysis of financial data to create models, which then form the basis of earnings estimates and most recommendations and investment decisions as this study indicated. The study concurred with Donaldson’s (2006) work in so far as most of these financial models use lag indicators of past performance rather than lead indicators of future performance. Similarly, Watson Wyatt Worldwide Research (2002) indicated when using survey data from 51 organisations in North America and Europe, administered in 1999, 2001 and 2005, after the researchers divided organisations into three groups based on their overall Human Capital Index (HCI) scores, found that superior HRM practices have a positive effect on the future share price of companies that lead indicators as this study suggests are better predictors and are more likely to be gleaned from a systematic examination. Therefore, qualitative techniques in assessing the value firms should be used in conjunction with the current techniques used by securities analysts to forecast future financial performance.

The distinction between qualitative and quantitative analysis, made by Kvale (1996:67-8), includes the observation that qualitative analysis, even in a ‘hard’ sciences, precedes quantitative analysis. Qualitative analysis refers to the essential character of something. Conversely, a quantitative analysis refers to how much, how large, or the amount of something. A qualitative analysis is designed to identify the components of a substance. A quantitative analysis determines the amounts of the components of a substance. A qualitative analysis is a presupposition for a quantitative analysis. In the practice of natural science, both forms of analysis are often required.

This move from a quantitative focus on professional development to a blend of quantitative and qualitative focus requires changes to the standards of professional development of securities analysts. This is a non-trivial issue given the scope and scale of the profession. The Australian Securities and Investment Commission (ASIC) annual report (2005/6: 41) indicates that there are 4,415 financial services business, including fund managers, stock brokers, financial advisors and insurance brokers. In 2001/2 there were 2,250 securities dealers, inclusive of securities analysts, in Australia. Generally, these securities analysts are employed by a brokerage firm, bank or investment banking institution. However, current organizational structures require securities analysts to meet the needs of diverse stakeholders.

Current professional development of securities analysts is highlighted in two specific policy documents. The ASIC sets out Regulations 146 ‘Licensing: Training and Financial Products
Advisers’ and 164 ‘Licensing: Organisational Capacities, Educational Levels’. Financial organisations need to ensure that their nominated responsible officers have the knowledge needed for their roles. Holding a relevant industry or degree qualification in a relevant financial/accounting or business discipline is a common element. The specialist knowledge needed by securities analysts, dealers and investment managers typically includes an understanding of the operation of securities markets, types of financial/investment products and most importantly theories of investment portfolio management and risk (Regulation; Policy Statement, 146: Appendix 2.2).

Historically, a role of HRM in the sector has been instrumental in ensuring and monitoring the training of securities analysts in traditional quantitative techniques, to comply with licensing requirements from the Australian Stock Exchange and other regulatory authorities. However, the evidence from these case analyses indicate there are additional opportunities for the HR function to move beyond a monitoring role and into a lobbying role to improve the level of qualitative analysis among analysts. This is discussed in more detail below.

Case based research evidence into the Equities division of two local foreign-owned investment banks suggests that securities analysts are seen to be elite of the Equities business in terms of knowledge base and intellect with 93 per cent holding an undergraduate qualification in Finance, Business specialised fields such as Engineering, and over 50 per cent holding a postgraduate degree or diploma in Finance, Commerce, or Business Administration. Their core theoretical knowledge is obtained through formal training programs, either through higher degree educational institutions and short courses on a continuing basis to meet regulatory requirements through the Australian professional association body the Securities and Derivatives Investment Association (SDIA).

One outcome of this quantitative basis of professional development has been for securities analysts and equity traders to rely on their own, largely mathematical models of earnings forecasts, rather than a broader analysis of the firm and the context in which it operates. While necessary, quantitative analysis may result in a minimisation of the uniqueness of each stock.

At the same time, due to the increasing value of intangibles in firms it is increasingly important for securities analysts to assess the inputs to intangible value. These inputs include
human capital themes such as: management systems, ongoing organisational change programmes and corporate culture and their links to company performance (Schuster, 1986; Nonaka, 1991; O’Reilly and Pfeffer, 2000; Collins, 2001; Bassi et al, 2001; Pfau and Kay, 2002). Yet, few analysts have, or have access to, the competencies needed to make such assessments.

This is significant, as the data from two case study firms indicates that, in knowledge intensive firms, the development of human capital and the systems by which human capital are managed are elemental to the future value created by those firms. Systematic analysis of human capital, using non-traditional, qualitative methodologies, may assist securities analysts in synthesising a wide range of data, thus enabling more sophisticated evaluations of investments. One implication of this change in the focus of the professional development of securities analysts can be seen in the changing focus of HR professionals to lobby for knowledge acquisition via qualitative research methods. This professional development may be instrumental for securities analysts to then be differentiated from their competitors.

The Four Stages in the Learning and Development Process – HR’s Role In Bridging the Knowledge Gap in the Investment Industry.

Stage 1: Training Needs Analysis: Knowledge Acquisition by Securities Analysts and Equity Traders.

These data were triangulated by the authors and incorporated into a training needs analysis framework to establish if there were any potential gaps in the professional knowledge base of securities analysts (see Figure 4).

Figure 4 here

The data were consistent with the Lev’s (2001) observation that there is intense interest in intangibles, including human capital, even though many companies, or indeed the financial institutions which are the professional observers of organisations, do not typically have systematic ways of valuing and leveraging intangibles. Lev (2001) stresses that this is an important gap which needs to be bridged because intangibles are fundamental drivers of innovation and deverticalisation. It is important to note that the focus of analysis needs to be on the value created by human capital, rather than the costs of managing and accounting for human capital.
The framework in Figure 4 illustrates the process of identifying knowledge gaps within the knowledge acquisition process in the professional development of securities analysts and equity traders. The training needs analysis revealed that the role of securities analysts involves much more than financial analysis. They also need to assess a wide range of intangible assets – in areas such as sustainable HRM practices, ongoing organisational change programs and corporate culture and how these link to corporate performance.

**Stage 2: Training Design for Securities Analysts and Equity Analysts: Fundamental Principles**

It was established from the triangulated data that few security analysts or equity traders have the theoretical knowledge base for qualitative human capital data analysis at the ideal professional level described by Hodson and Sullivan (2002). As noted earlier, the theoretical knowledge base these analysts possess is primarily in financial quantitative fields, acquired through formal training at universities prior to and during their career journey, supplemented by ongoing short courses through finance industry professional associations, such as SDIA (Securities and Derivatives Industry Association) and FINSIA (Financial Services Institute of Australia), to meet regulatory licensing requirements. However, except under exceptional cases, these ongoing courses focus primarily on technical, quantitative aspects of analysis.

Even though professional development programmes do not include qualitative data analysis, securities analysts have routinely considered qualitative interview techniques to be important particularly when it comes to ‘management quality’ issues in their data collection process. There is however little evidence of any consistency in the qualitative techniques being used, (Bassi et al, 2001). There are questions about the level of methodological rigour applied in qualitative areas of analysis (Roberts, Sanderson, Barker and Hendry, 2006). Yet, qualitative techniques are becoming increasingly important for securities analysts as they continue to access non-financial data, based on intangible assets, in making earnings forecasts (Guthrie et al, 2000; Boedker, 2005; Roos et al, 2005; Marr, 2005).

Given the depth and strength of the corporate sustainability debate, and in light of high profile corporate collapses, such as HIH (a major Australian insurer which went bankrupt in 2001), increasing pressure is on securities analysts to observe and communicate early warning signs of potential corporate under-performance. However, as the training needs
analysis indicates, securities analysts do not possess an appropriate depth of knowledge base to develop the competencies needed to analyse all available qualitative and quantitative data make such assessments.

The current financial analyst licensing regime in Australia was sufficient for a focus on “old economy” stocks in which future value could be derived from an examination of historical value. For the knowledge based economy, in which intangible assets, particularly human capital, are significant, if not the only contributors to future value, more sophisticated forms of human capital analysis are needed, and needed urgently. The HR function within these case study investment banks has a range of potential roles to bridge this theoretical knowledge gap.

Bridging this knowledge gap will require HR professionals in these firms to assist securities analysts and equity traders to develop sophisticated skills in qualitative research, and to embed those skills in performance management systems. Just as securities analysts require the appropriate competencies, skills, knowledge and abilities in order to form earnings estimates and investment recommendations, different qualitatively focused competencies, skills, knowledge and abilities are required to meet the demands of the analysis of intangibles such as human capital.

The resulting challenge for the HR profession within investment banking thus includes a focus on professional development of securities analysts and equity traders to include: qualifications and/or formal training in the fields of sustainable HRM, organisational change and/organisational behaviour and their links to corporate performance. These will include additional qualifications and/or formal training in qualitative research techniques, i.e. interviews, participant observation, surveys, oral histories, historical/archival and documentary analysis and content analysis. The available training in the area has, to date, underutilised developments in qualitative research that are readily adaptable to the assessment of non-financial data.

Stage 3: Implementation Challenges - The Potential Roles for HR to Bridge the Theoretical Knowledge Gap

Based on the training needs analysis in these investment banks, it is clear that HR has four potential roles for bridging the knowledge gap evident in the professional development of
securities analysts. These roles range from: firstly, non-traditional lobbying for change in the licensing requirements of analysts; to secondly, more traditional roles of accessing postgraduate qualitative research courses; thirdly, to creating customised professional development opportunities for analysts and, finally, creating a labour market for specialist human capital analysts. Each of these roles requires HR to generate and sustain changes to existing practice in professional development of securities analysts and equity traders. Each of these four roles emphasises the elemental nature of HR as drivers of the professional development changes needed in the finance industry. These roles are summarised in Figure 5.

Figure 5 here

These potential new roles for HR may have broader implications for the finance industry as a whole. Each of these four new roles for HR is detailed below.

A. Lobby regulators to update the licensing requirements, to include qualitative analytical techniques
An increased emphasis on the value created by intangibles, including human capital, is likely to increase the quality of information available to institutional investors and will help them to differentiate the quality of investment banking products and services. It is appropriate for HR professionals to act as advocates for increased transparency in the investment recommendation process. Data from the case study firms is consistent with the view from The Economist, (April 13th, 2002: 70), which notes that higher quality information on human capital will give investors more substantial criteria on which to base their investment decisions.

Capital markets are highly regulated to ensure transparency. For instance, three Commonwealth Government bodies regulate Australia’s financial system. The Reserve Bank of Australia (RBA) regulates monetary policy and monitors the stability of the financial system. The Australian Prudential Regulation Authority (APRA) regulates the safety and soundness of banks or deposits taking institutions, life and general insurance companies and the larger superannuation funds. The third of the Commonwealth Government regulatory bodies is the ASIC which was established by the ASIC Act 1989. The ASIC ‘enforces company and financial services law to protect consumers, investors and creditors and informs the public about Australian companies, financial markets, financial services organisations and
professionals who deal and advise in investments, superannuation, insurance and deposit taking’ (ASIC Annual Report, 2000-2001: 1).

The ASIC, through one of its Directorates, the ‘Financial Services Regulation Directorate’, is responsible for regulating Investment Advisers. It does this by licensing them and by setting standards for their education, training and operations (ASIC Annual Report, 2000-2001: 1). Formal qualifications are currently an important part of the underpinning knowledge requirements specified in Policy Statement 146.117 (ASIC Policy Statement 146 Document, 2001: 26), therefore ASIC through its Financial Market Regulation directorate is central to any future changes in the knowledge educational competencies to meet the licensing requirements (Royal, 2004).

The case study data would suggest the ASIC through its Financial Market Regulation Directorate may need to initiate a consultation process to broaden Policy Statement 146.117: Knowledge Requirements Specialist Securities and Dealers Competencies outlined in Table A2.2, A2.3 and the Managed Funds Table A2.4 to include Theories of Human Capital. (ASIC Policy Statement 146 Document, 2001:46-50).

As an internal professional service provider, the HR department in these case study investment banks can capitalize on international initiatives to improve the quality of qualitative analysis of listed stocks by securities analysts. Australian regulators, and their international counterparts, may be responsive to these pressures for change. They would be consistent with initiatives such as the Enhanced Analytical Initiative (EAI), formed from within the finance community, which is attempting to bridge the knowledge gap. The EAI has created incentives of 5% of fees to be included in a brokerage pool, to be paid to the firms which can demonstrate high quality analysis of intangibles.

However, this initiative, while extremely worthwhile, has so far been silent on the need for including the HR function within listed firms. Its focus has been on intellectual capital and other forms of capital which, in some ways, can be quantified relatively easily, for instance, by referring to the numbers of patents held by the firm. The HR departments in these case study firms could be instrumental in creating broader change in this area and in the industry as a whole.
B. HR can Access Post-Graduate Programs in Applied Qualitative Research and Embed These Research Methods in Performance Management Systems

Based on the training needs analysis, and the empirical literature on human capital as a lead indicator of future potential firm value, securities analysts will need to undertake additional formal degree qualifications to acquire the necessary theoretical underpinnings in human capital analysis. This education should draw on the fields underlying human capital: sustainable HRM, organisational change and organisational behaviour. It should also include training in formal qualitative research methodology. This would involve consultation with universities and other diploma qualifying institutions. Some courses of this nature are already available in Australia, as noted below.

A range of faculties offer studies in applied qualitative analysis. HR professionals in these case study investment banks can ensure that this research methodology is embedded in the knowledge acquisition process of securities analysts. To ensure this process, HR can also ensure that both forms of research: qualitative and quantitative, are assessed as part of the formal performance management system of securities analysts within these investment banking firms.

One specific case study of a post-graduate approach to applied qualitative analysis in the context of the financial markets is seen in the subject, “Towards Corporate Sustainability: Effective Human Resources and Organisations” which was presented for University of New South Wales Masters of Commerce students. Students include investment bankers as well as Commerce students. It was presented for the first time in 2003, and has since been presented annually. The subject looks at the three elements of firm sustainability: environmental, financial and social. The focus is on the social element, defined in this context, as the internal human capital systems of the firm. A range of research is presented to develop the theme that companies with superior human capital systems are more likely to have stronger financial performance than companies with below average human capital systems. Students are challenged to develop skills in human capital analysis to give them insights into potential future organizational performance.

As a practical outcome of this theme, the third assessment task challenges students to examine the human capital of selected Australian Stock Exchange (ASX) listed companies, based on publicly available information, including academic case studies. Students rate
human capital systems within each of their target firms according to human capital metrics models. They then provide recommendations for investment. In class, students also look at financial information on these companies, based on the principles of analysis of stability of earnings growth. This postgraduate Commerce subject adopts key principles of human capital analysis, to make it easier for post-graduate business students particularly those in the fields of finance and investment to make more transparent investment decisions based on sustainability principles. This subject is a step towards a more qualitative and comprehensive analysis of the potential future financial performance of listed organizations. It has already been accessed by specific investment bank analysts.

C. Use existing professional bodies such as SDIA for customised professional development in qualitative research methods

Continuing Professional Development as specified in policy statement PS146.70 (required since 1st January 1995) in future, could require finance professionals to regularly attend workshops, conferences, or courses in the human capital field (ASIC Policy Statement 146 Document, 2001:23). Some professional industry associations are already providing members with continuing professional development (CPD) points for attending specialist workshops on human capital analysis. The SDIA is one example of this. These professional bodies, or appropriate training consultants, could also be invited to the investment banking industry to provide customized short courses on applied qualitative research techniques so that securities analysts can access insights on human capital from within listed firms.

This new approach to CPD of securities analysts could draw on recent initiatives in adult teaching and learning, especially on narrative and case based learning. Stenfors (2003:855) notes that a simple narrative has always been the cornerstone of teaching. Case studies can also illuminate the key themes required for professional knowledge base acquisition in ways which work at the heart of the knowledge required (Yin, 2003). New knowledge is more easily blended and associated with old knowledge if they way they are referred to are similar. Narratives not only bridge tacit and explicit knowledge (Ward and Sbarcea, 2001) but also between individuals and organisations. In case studies, the learner is offered a chance to create new knowledge and understanding from the complex situation described in the case. In the context of knowledge acquisition of human capital analysis techniques by securities analysts, case studies and associated narratives based on the histories of individual listed firms, have some pedagogical power.
Within this conceptual context and as a result of research in this human capital knowledge gap, the authors have been invited several times to be key note speakers on human capital analysis at finance industry national industry conferences. It has been relevant to the industry bodies to illustrate the conceptual approach to human capital analysis with specific case studies of how it can be used in practice to assist in the process of assessing potential future financial performance of firms.

**D. HR to create an open labour market for specialist human capital analysts to work side by side with traditional quantitative analysts**

The data also indicate that these case study investment banks could use their HR departments to create opportunities for human capital competencies and skills to be hired in from the external labour market. This would complement a traditional equity research team. The financial markets would benefit from qualitatively trained human capital analysts, working alongside quantitatively trained securities analysts, to provide independent research on those relevant human capital practices which are likely to influence future shareholder wealth.

In one interpretation of this new role, human capital analysis skills within the HR department could be used to interpret human capital in listed companies. Senior members of these case study HR departments are highly skilled and trained in their own approach to human capital – its management, development and performance. Based on the data, there should be strategic opportunities for these internal HR consultants to work alongside their quantitatively trained securities analyst and equity trader colleagues to assist in the interpretation of the patterns of human capital evident in listed companies.

In these case study investment banking organisations, the HR function has noted the knowledge acquisition gap among securities analysts and equity traders has attempted to bridge that gap using a range of resources and recommendations. However, neither firm has yet embedded these changes within the performance management systems as they apply to securities analysts.
Stage 4: The Context for Implementing Changes to the Development of Knowledge Bases: Pressures for Differentiation of Professional Services

The final stage of Delahaye’s (2000) four stage process is based on the concept of evaluation of this process of knowledge acquisition. The knowledge acquisition process of securities analysts takes place in the context of pressures for differentiation, rather than commoditisation, within these case study professional service firms. If HR can take new roles in designing and implementing qualitative training systems for securities analysts and equity traders within investment banking firms, this would mitigate the trend to commoditisation of financial services (Dawson, 2000:41; Carrion, et al, 2003). This trend to commoditisation can be experienced at two levels within these case study firms, firstly, within the HR departments themselves as they compete with other internal service providers to gain strategic leverage points in these investment banks. Secondly, there is a trend to commoditisation within the ranks of the securities analysts themselves, as they attempt to move from commoditisation to specialization in order to be service to their increasingly demanding client base.

Sustainable differentiation in professional services can be found in the following three areas:
1. Greater specialist theoretical knowledge and expertise effectively embedded into products and services. The traditional view of the professional is that their key source of differentiation is greater expertise in their chosen field.
2. Closer and deeper client relationships are a source of differentiation. This includes the personal aspects of relationships and the ability to identify mutually beneficial business opportunities and transactions. Organisational and personal relationships are primary ways of winning business over their competitors.
3. Greater knowledge transfer, resulting in enhanced client decision making and business capabilities. This is already an extremely important source of differentiation, and its relevance is increasing. The ability to add value to clients through knowledge transfer relates both to depth of content and process knowledge as well as organisational capabilities in transferring that knowledge to achieve real benefits to clients. (Dawson, 2000).

In these case study firms, HR professionals are challenged to deliver on all three aspects of these knowledge management processes, in order to fulfill its full potential as a non-commoditized service provider to its internal stakeholders.

Conclusion
Recent debate in the literatures in accounting (Boedker, 2005; Mayo, 2001; Lev, 2001; Bassi et al, 2001) and knowledge management (Sveiby, 1997; Marr, 2005; Roos et al, 2005) has acknowledged the importance of converting intangible assets into appropriate data, which can then be disclosed to the financial markets. One key distinction between tangible and intangible assets is that intangible assets may be subject to increasing returns over time, rather than the decreasing returns from tangible assets (Bontis, et al 1999).

Much work needs to be done to improve securities analysts’ and equity traders’ acquisition of qualitative research methods, particularly in the context of human capital analysis. Empirical qualitative research (Roberts, et al, 2006) confirms our views that there are significant opportunities for the HR function within these case study firms to bridge the knowledge gap. Our paper demonstrates one approach to using a training needs analysis in order to move through a four stage strategic HRD process which entails: a needs investigation, a design stage where objectives, goals and content are examined an implementation stage where formal or informal training occurs and an evaluation stage where the learning experience is assessed (Delahaye, 2000). It can be seen from the two case studies that the first, second and third stages of the HRD process, that is the training needs analysis, the training design and aspects of implementation, and the insights which emerge from the process, have potential to become a catalyst for change across these organizations, and potentially for the finance industry as a whole.

In summary, the data indicated that if securities analysts and equity traders fail to analyse intangibles such as human capital as key to the future value of listed firms, their investment recommendations will be suboptimal. The potential roles for HR to bridge these knowledge gaps is therefore of strategic importance, not just to these specific investment banks, but potentially to the finance industry. It is in the interests of the finance industry, the management of listed firms, investors, potential investors and regulators to support the HR department within investment banks. This support will assist HR to bridge the knowledge gap of securities analysts and equity traders, so they are well positioned to meet the more complex requirements of analysis of intangibles, including human capital, in knowledge intensive corporate environments.
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Training needs analysis which is consistent with corporate strategy and consistent with other human capital systems

Stage 2
Training design (objectives, goals and content, mode of delivery, credentials, professional affiliations)

Stage 3
Implementation of formal training systems and practices

Stage 4
Evaluation and assessment of learning in the context of corporate strategy and human capital strategy

Figure 1: Four Stage Learning Development Process (adapted from Delahaye, 2000)
Figure 2: Location of Human Capital Analysis (adapted from Royal and O’Donnell, 2005)
Figure 3: The Human Capital Wheel (Royal and ODonnell 2005)
Figure 4: Methodological Framework – Training Needs Analysis and Role of HR Professionals

- Analysis of securities analysts’ current and future training needs, within strategic context
- Objectively defined work description; including current and future approaches to equities research
- Implications for future role requirements
- Evaluation of current knowledge, skills, explicit/implicit evaluation.
- Gap analysis: current versus future skill sets, identifying other knowledge gaps
- Training curricula, recommendations and solutions
- Role of HR – defining training content, knowledge sources, training paths (internal and external), e.g. lobbying for additions to Licensing requirements to include qualitative research

Adapted from Petropolous and Xini (2003)

Figure 5: Potential New Roles for HR
to Develop Knowledge Base of Securities Analyst and Equity Traders