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Human capital analysis and investment decisions by banks

BY DAVID CREELMAN AND ANDREW LAMBERT (2011)

The Brazil Development Bank (BNDES), a behemoth with $300 billion in assets, used to make lending decisions based on credit analysis—they ran the numbers. Yet this was a blinkered approach. In a knowledge economy where human capital and other intangibles matter, just looking at the financials doesn't provide enough insight. In 2010, the BNDES's board approved a new methodology for assessing value and they are currently rolling it out. This new method holds lessons for both HR leaders and boards.

The new approach the BNDES uses to assess whether an investment makes sense or not is to do a broad analysis of the firm. They consider factors such as strategy, governance, innovation, financial policy and human capital. `This analysis is built around 41 factors; 30 relating to intangible assets, nine to competitiveness and two to strategy. Each factor is scored on a scale of 1 to 5.

Stated so simply, this broad analysis seems the obvious way to go. Of course you should handle large investments this way! But how many investment decisions—and this includes the investment decisions corporate boards are asked to approve—are made with such a serious look at intangibles? How often do banks or boards apply this degree of systematic rigour to human capital?

It's worth understanding something of the economic shifts that led the BNDES to make this change. Until recently their priorities were investing in infrastructure, heavy industry and agribusiness. In that world, relatively narrow financially-driven decision making was good enough. However, as Brazil has become a force to be reckoned with the development bank has moved on to broader and more ambitious priorities. They want to see innovation, sustainability, exports and social inclusion. A new economic world has called for a new approach to investment decisions.

Let's jump right to the implications for boards and HR leaders in the U.S. and Europe. One is that here we have a very big investor who cares about intangibles. This is a signal that boards should be looking at intangibles with comparable rigour. Furthermore, eventually it won't just be a signal; investors will put real pressure on boards to deliver expert oversight of their biggest asset: human capital.

The implication for HR leaders is that they should take the lead in advising the board on how to make sense of human capital; maybe even going so far as to systematize the analysis drawing on what BNDES has done. In our study *The Board and HR* we found that in almost all the cases where the board did have a good handle on human capital it was because HR had taken the time to educate the board on the people issues and provide information in a way that generated insights. HR shouldn't wait for the board to ask for information; HR needs to learn what is relevant and bring it to the board's attention.

It is interesting to see Brazil, which is still a developing country, taking the lead here—but perhaps it is that very attitude towards fresh thinking that has made Brazil such an economic success.

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