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Has GSK fixed its misconduct problem?

GSK is currently rated BB- on our OMINDEX and recently featured in an HR Magazine ‘Case Study’ entitled ‘Ethical training at GlaxoSmithKline’ purporting to have fixed its serious internal conduct issues by re-training its sales staff.

Our view is that it has done nothing of the sort. Should GSK be *training* its people to be ‘ethical’ or should it have recruited, developed, and managed people to be *ethical* in the first place? GSK is like any other organization in one crucial respect - it is a whole system. If GSK staff were mis-selling drugs it is, first and foremost, as a direct consequence of the board and executive sanctioning, facilitating, or being unaware of it. Either way, they have been failing in their duty of corporate and *human* governance.

But the whole system does not stop at the C-suite. Whole system analysis extends well beyond the corporation itself. According to the article it was as recent as “…1 July last year..." that “... GSK stopped paying healthcare professionals to speak positively on behalf of its products....” Corporations are not typically corrupt in isolation and often corrupt others within their wider community. In this case it was healthcare ‘professionals’ (sic) whose own behaviour has to be called into question.

Sir Andrew Witty, outgoing CEO of GSK, and the whole of the board today, might think that *training* people in ethics is a mature and intelligent way to excise a deep-rooted, systemic problem within their organization. It is actually the exact opposite and a clear indication that their current OMR rating is validated.

AT&T

What the numbers tell us about culture at AT&T

We recently commenced our OMINDEX work for the S&P500 and examined AT&T. They rate as B+ on our ratings scale. We found the company poor in human capital management terms, with a strategic focus on conventionally managing people as a cost rather than as a source of value. But what did the numbers tell us, if anything, to support our conclusions? We asked Nick Shepherd, a C-Suite exec and accounting expert:

“I spent time looking at AT&T financials including a lot of research on analysts opinions. As an example, in the management narrative to the 2015 report they talk about “people” but in most cases it is as customers with only one reference to internal people; however they also talk about (in the small print about changes in cost) cost reductions that have come from reductions in employees. Reducing headcount can have a significant impact on value such as

employee willingness to contribute to their vision but no mention has been made of this risk – other than the financial implications of the savings not being achieved.

One of the supplemental reports that I pulled off their website talks about innovation but again not a lot on the people side other than their commitment to employee training and development. However their innovation initiative – while attractive, seems to have generated fewer ideas than equivalent programs such as Toyota. At year end, 2015 AT&T's market value was $214.9B and its book value $122.7B giving a premium of $92.2B; however its brand value[1] was $89.5B leaving almost no additional premium for other intangibles such as its work-force (human capital), relationships with suppliers and other 3rd parties. This is unusual for a technology-based organization where increasingly the market assigns a premium to recognize the value of people and in particular, intellectual capital. Verizon as an example has a much higher multiple of market to book value."

ARM ARM Holdings: a sophisticated operation needing careful handling

In light of Softbank's acquisition of ARM Holdings it is worth noting three aspects of the deal that have a material 'human capital' dimension. One, ARM is a world-class knowledge business but it is also a relatively small business in people numbers (c.3000 staff) and how they feel about ARM becoming part of a large and ambitious conglomerate will have an important potential impact on their value contribution. Two, staff numbers are supposed to double over the next 5 years. For most companies that would not be too much of a stretch in sheer hiring terms but when you're looking for the very best technical (and managerial) expertise it will not be achieved without challenges that will test the business's foundations. Managerially, 6,000 people means more cultural distance and 'infrastructure' between operations and senior management and this may hinder ARM's responsiveness in a fast changing technological marketplace. Three, ARM's current OMR (rating) is a very respectable BBB+, earned in part for its sophisticated 'ecosystem' of partners and suppliers. Softbank's acquisition is likely to test just how fragile that ecosystem might be.

YAHOO! "Still no buyer as losses widen to $440 million"

One of the earlier successes of the internet age has got old before its time which is ironic as it was supposed to be a great exemplar of people management and whatever its CEO Marissa Mayer learned about people management at Google, it's a very different type of management that is required when moving from the luxury of staff 'micro kitchens' and 'car valeting' to hard edged tactics for survival. There are numerous lessons here for the savvy investor who can see just how important human capital management is in a high tech, knowledge business that has to keep everyone in the business up to speed with the pace of change.

Human Governance Briefing is a new fortnightly insight into the human governance and human capital management aspects of the business world brought to you by OMS LLP, the founders of OMINDEX.

[1] See Statista at http://www.statista.com/statistics/326078/at-t-brand-value/ however others valuation of AT&T brand may vary