



# Human Governance

## NEWS: September 2016

Welcome to the latest Human Governance Newsletter from the Maturity Institute (MI). The global distribution list includes a wide readership encompassing professionals working in corporate governance, investment (both mainstream and ESG), leadership, accounting, HR, operations, CSR and academia who all have a common interest in ensuring that organizations can reconcile and maximise long term financial and societal value through mature management practice. I hope you will find it interesting and feel encouraged to engage with us by offering any constructive feedback you might have.

Paul Kearns  
Chair, MI

## Human Governance Review: a new *integrated* company report

**AT&T**  
Human Governance Report

**OMS**  
Organizational Maturity Services LLP

**Outlook:** AT&T's Maturity Market Value Opportunity 2-3 years B+ (10%) 5-10 years B (20%)  
Significant value gains to be made from AT&T's largely untapped reservoir of human capital.

**Performance:** AT&T's performance appears adequate in relation to conventional investment norms but its OMR rating of B+ indicates that performance relative to total value potential falls short by a large margin primarily because of its low maturity in Human Governance (HG) and Human Capital Management (HCM). For more information on this point see our explanatory video: <http://bit.ly/1u38a> through [maturity.at&t.us](http://maturity.at&t.us).

<b>OMR B+</b> OMR Sector: Telecommunication Services Sub-Industry: Integrated Telecommunication Services	<b>Summary AT&amp;T Inc. (formerly SBC Communications)</b> provides telephone and broadband service and holds full ownership of AT&T Mobility (formerly Cingular Wireless).
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<b>AT&amp;T Inc. T</b>	<b>Human Capital Risk Assessment</b>
Market cap. \$257.52 B	<b>LOW</b>   <b>MEDIUM</b>   <b>HIGH</b>
P/E 18.05	<b>MEDIUM:</b> Human capital risk profile indicates AT&T's risk will increase as the company strives to implement its strategic shift to a higher value added, product and service delivery. AT&T is more vulnerable to industry disruptions as a direct consequence of its expedited utilization of its human capital.
Employees 280,000*	
Total Revenue \$146.80B	
Cost of Revenue \$87.04B	
Gross Profit \$59.76B	
R&D spend <sup>†</sup> \$1.70B	

**Employee Innovation Rate: 2%**  
(1 idea per employee per year = 100%)

15	25	35	45	55	65	75	85	95	100
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**Positioning AT&T on the OMR Scale (see chart below)**

- AT&T's B+ is only one grade above 'default': this indicates the use of conventional HR management practices, treating people as a cost rather than valuable human capital.
- AT&T are currently unaware of their relatively low maturity level and the implications for value and risk.
- Board and Executive unaware of human capital as a source of long term value; leadership mindset and executive management capability would benefit greatly from a fundamental shift in thinking.
- There is no attempt to strategically and proactively manage its 280,000 people for maximum value.
- At this low level of maturity AT&T's relationship with its supply/value chain is sub-optimal focused on cost efficiency rather than whole system value.
- The Rating/risk gap (shown by the shaded area) indicates the disparity between the traditional financial rankings issued by credit rating agencies and the OMR rating. This signifies a possible increase in risk exposure through using predominantly financial capital as a basis for assessing sustainability of performance.

<b>Returns on Equity</b>	<b>Returns on Assets</b>	<b>Profit margin</b>	<b>Operating Margin</b>
13.46%	4.82%	8.97%	17.72%

This new, integrated Human Governance Report (HGR) on AT&T is the first of its kind. It has been produced as part of our groundbreaking research collaboration with Harvard Law School's Pension and Capital Stewardship Project into the S&P500 and other global stock indices.

The report advises that AT&T have significant market value opportunities (20%+ over 5 years) if the company were able to develop more effective human governance. It also breaks new ground by utilizing traditional financial analysis to complement the perspective of viewing the company through the lens of human governance.

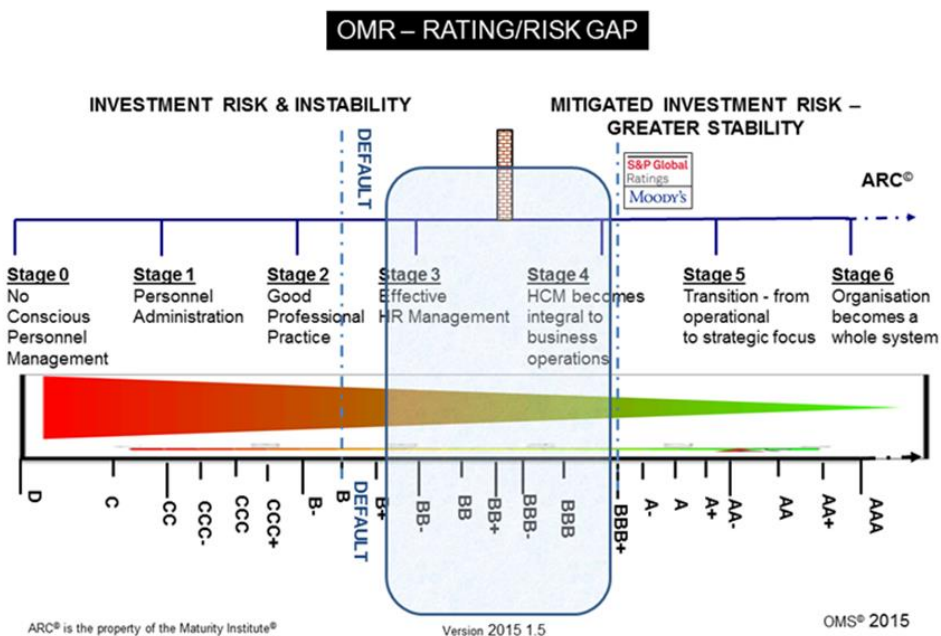
This level of detail will not be produced for every company rated as part of the S&P500 programme but can be produced on request (e.g. by research sponsors). We will also be working with our project partners to seek feedback on what value

this HGR provides to investors and other stakeholders and how it can be improved.

If you would like a free copy of the AT&T HGR, or to find out more about partnering with us on our OMINDEX research collaboration, please contact [stuart.woollard@omservices.org](mailto:stuart.woollard@omservices.org)

## MI's Orientation now teaches the OMINDEX methodology

MI has made an important decision to include the Human Governance Rating methodology OM30+ (the basis for OMINDEX) in the latest version of its Orientation programme, which is a requirement for MI membership. OMS LLP has agreed to share this proprietary IP to specifically help encourage others (such as C-suite execs, asset owners and investment managers) to better understand and adopt whole system analysis when considering corporate culture and management quality. It is a fundamental building block for more accurate company valuation, investment decision making and developing in-house management capability around human governance.



After participating in the latest MIO, which included the OMINDEX methodology for the first time, Nick Ford (Group Practice Director at Clark Hill) advised:

*"I would like to thank you for a thoughtful, meaningful and packed 2 days. There is evidently so much work and thought that has gone into the MI approach and an obvious effort to combine the art and the science. I have a lot of work to do and a lot that I think can be done. I am eager to present the ideas to (my CEO) and the team. I hope we stay in touch, I know I will need some additional counsel and guidance. Many thanks"*

Our next MIO will be held on 28 & 29 September. Please contact [paul.kearns@omservices.org](mailto:paul.kearns@omservices.org) for more information or, to register, go to our [MIO page here](#).



## **Nick Shepherd joins the Maturity Institute Council**

We are very pleased to announce that Nick Shepherd has joined our MI Council. Nick is already bringing his significant leadership and management experience to bear on the development of MI together with his expertise in finance, accounting and particularly integrated reporting (<IR>). In particular, Nick has been helping us develop our integrated company reviews that dovetail with OMR (organizational maturity rating). Nick is also a prolific writer and some of his

work can be viewed [here](#) See also '[Phantom accounts - the art of making the invisible, visible.](#)'

On joining MI Nick said:

*"I am very happy to be joining the council of MI; after having spent considerable time studying the MI framework and its approach to evaluating and understanding human capital I believe its approach puts it in a leadership position in this evolving area."*

## **Human Governance Steering Group (HGSG)**

MI's HGSG initiative, which brings a wide range of stakeholders and disciplines together (from the investment community, C-suite, accounting & legal professions, professional services, and academia) in a collaborative effort to progress an agenda for effective Human Governance, has expanded to include more members. The next meeting will be held on 30 September 2016. The HGSG is chaired by MI Council member Stuart Woollard. Its objectives include:

- Building a respected 'lobby group' for driving maximum societal and corporate value through effective Human Governance
- Identifying and highlighting effective HG practice – through investment analysis & corporate exemplars
- Establishing HG as a critical component of corporate reporting: getting beyond simplistic proxy metrics to meaningful whole system insights
- Developing an HG curriculum for board and C-suite members through partners in business schools and academia
- Developing professional HG expertise within investment, corporate and other stakeholder groups

If you are interested in participating or finding out more please email [stuart.woollard@omservices.org](mailto:stuart.woollard@omservices.org) You can watch the video of the inaugural meeting of the HGSG and read the summary meeting notes [here](#).